

### Doing good or going better: development policies in a globalising world

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SCIENTIFIC COUNCIL FOR GOVERNMENT POLICY

*Monique Kremer, Peter van Lieshout and Robert Went (eds.)*



# *Doing Good or Doing Better*

DEVELOPMENT POLICIES IN A GLOBALIZING WORLD

AMSTERDAM UNIVERSITY PRESS

*Doing Good or Doing Better*

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# *Doing Good or Doing Better*

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*Monique Kremer, Peter van Lieshout and Robert Went (eds.)*

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## CONTENTS

<b>About the authors</b>	9
<b>Preface</b>	13
<b>1 Towards Development Policies Based on Lesson Learning: An Introduction</b>	15
<i>Monique Kremer, Peter van Lieshout and Robert Went</i>	
1.1 Paradigm shifts	16
1.2 Globalization	19
1.3 At the beginning of the 21 <sup>st</sup> century: Elements for development policies based on lesson learning	22
<b>PART I RETHINKING DEVELOPMENT</b>	
<b>2 Twenty-first Century Globalization, Paradigm Shifts in Development</b>	27
<i>Jan Nederveen Pieterse</i>	
2.1 Twenty-first century globalization	27
2.2 Turning points	29
2.3 New development era	30
2.4 International development cooperation	40
<b>3 Does Foreign Aid Work?</b>	47
<i>Roger C. Riddell</i>	
3.1 Introduction	47
3.2 What aid are we talking about?	48
3.3 Challenges in trying to assess the impact of aid	51
3.4 Does aid work? The evidence	54
3.5 Constraining aid's greater impact and how these constraints might be addressed	65
3.6 Concluding comments: Aid and the wider perspective	70
<b>PART II LEARNING FROM DEVELOPMENT HISTORIES</b>	
<b>4 Under-explored Treasure Troves of Development Lessons: Lessons from the Histories of Small Rich European Countries</b>	81
<i>Ha-Joon Chang</i>	
4.1 Introduction: Lessons from history, or rather the 'Secret History'	81

4.2	Agriculture	86
4.3	Industrial development	89
4.4	Corporate governance and the concentration of economic power	95
4.5	Social and political factors	97
4.6	Concluding remarks	99
<b>5</b>	<b>Stagnation in Africa: Disentangling Figures, Facts and Fiction</b>	<b>107</b>
	<i>Paul Hoebink</i>	
5.1	Stagnation in sub-Saharan Africa	108
5.2	The low social development cause	111
5.3	The not-a-nation-state cause	113
5.4	The dependence on raw material exports cause	115
5.5	The greedy politicians cause	116
5.6	The weak states and weak policies cause	118
5.7	The Washington consensus cause	119
5.8	Other traps and curses	123
5.9	Conclusions and consequences	125
<b>6</b>	<b>Including the Middle Classes? Latin American Social Policies after the Washington Consensus</b>	<b>137</b>
	<i>Evelyne Huber</i>	
6.1	The ISI period and the origins of social policy regimes	138
6.2	The debt crisis and the Washington consensus	139
6.3	Neoliberalism and its failures	140
6.4	Turn to the left and basic universalism?	144
6.5	The role of the middle classes	148
6.6	Lessons for development policy and external support	150
<b>7</b>	<b>Imaginary Institutions: State-Building in Afghanistan</b>	<b>157</b>
	<i>Martine van Bijlert</i>	
7.1	The Afghan state and the dynamics that affect it	158
7.2	The nature of the state-building effort in Afghanistan	163
7.3	How the 'international community' responds	165
7.4	Some concluding remarks	170
<b>8</b>	<b>Beyond Development Orthodoxy: Chinese Lessons in Pragmatism and Institutional Change</b>	<b>177</b>
	<i>Peter Ho</i>	
8.1	Buried under development?	177
8.2	On land and institutions	180
8.3	Chinese pragmatism: Colored cats or the demise of ideology?	183
8.4	Implications of Chinese development: Some concluding observations	193



## PART III BEYOND THE STATE: NEW ACTORS IN DEVELOPMENT

<b>9</b>	<b>Business and Sustainable Development: From Passive Involvement to Active Partnerships</b>	<b>211</b>
	<i>Rob van Tulder and Fabienne Fortanier</i>	
9.1	Introduction: from uniform to pluriform development thinking	211
9.2	From a traditional to a new development paradigm	213
9.3	From macro to micro: the role of multinationals in sustainable development	216
9.4	From general to specific: Strategic management of corporations and poverty alleviation	219
9.5	From passive to active: The search for partnerships	226
9.6	Conclusion: The challenges ahead	228
<b>10</b>	<b>Why ‘Philanthrocapitalism’ Is Not the Answer: Private Initiatives and International Development</b>	<b>237</b>
	<i>Michael Edwards</i>	
10.1	Private initiatives – what kind and how much?	239
10.2	NGO initiatives	241
10.3	Institutional philanthropy	244
10.4	Common problems: impact and accountability	248
10.5	Conclusions and implications for development policy	249
<b>11</b>	<b>The Trouble with Participation: Assessing the New Aid Paradigm</b>	<b>255</b>
	<i>Nadia Molenaers and Robrecht Renard</i>	
11.1	Participation: on the main menu or just a side dish?	255
11.2	What the new aid approach sets out to do: some background on the failure of aid	256
11.3	Flawed results	259
11.4	An overly optimistic notion of civil society	261
11.5	A biased vision on state-society interactions	262
11.6	A conditionality without ownership	266
11.7	When less is more	271

## PART IV NEW INTERDEPENDENCIES

<b>12</b>	<b>How Can Sub-Saharan Africa Turn the China-India Threat into an Opportunity?</b>	<b>279</b>
	<i>Raphael Kaplinsky</i>	
12.1	Introduction	279
12.2	Development trajectories for Sub-Saharan Africa – three orthodoxies	280
12.3	The rise of the Asian Driver economies and their challenge to the three orthodoxies	282

12.4	The Asian Drivers and Sub-Saharan Africa – win-win or win-lose?	289
12.5	The policy response	292
12.6	Policy actors	297
<b>13</b>	<b>Post-war Peace-building: What Role for International Organizations?</b>	303
	<i>Chris van der Borgh</i>	
13.1	Introduction	303
13.2	Recipes for peace?	305
13.3	International capacity and coordination	308
13.4	Local capacity and international footprint	310
13.5	Conclusion	314
<b>14</b>	<b>Migration and Development: Contested Consequences</b>	321
	<i>Ronald Skeldon</i>	
14.1	Background	321
14.2	Conceptual issues	322
14.3	Patterns of migration	324
14.4	Approaches to migration and development	328
14.5	Conclusion	334
<b>15</b>	<b>Global Justice and the State</b>	341
	<i>Pieter Pekelharing</i>	
15.1	The rise of the concern for global justice	341
15.2	The birth of the notion of distributive justice	346
15.3	Balancing our loyalties. On the extension of justice into the international realm	349
15.4	It's not 'what can you do?' but 'what can your institutions do?'	356
15.5	From cosmopolitanism back to the state: Rawls and the Law of Peoples	361

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## PREFACE

This book on the future of development policies in a globalizing world brings together a number of leading academics to describe and theorise upon various kinds of development policies, such as aid, financial investments, partnerships, trade and peace-building. They provide insight into the muddled trajectories of development on various continents – Africa, Asia, Latin America and Europe – and rethink the notion of development in a globalizing, interdependent world in areas such as migration, security and international justice.

The world is changing, and so is the unquestioning belief that development policies are always right. Instead of focusing on the rather limited notion of poverty, this book aims to deepen our understanding of the broad issue of development. What are the drivers of development? What new issues have arisen due to globalization? And what kinds of policies contribute to development in a world that is changing rapidly? *Doing Good or Doing Better* is both a description of the current ‘state of the art’ as well as an analysis of recent ideas and innovations.

This interdisciplinary edited volume serves as a background study for the WRR (Netherlands Scientific Council for Government Policy) advice on the future of development policies, that will be released separately. It has been edited by professor dr. Peter van Lieshout (member of the Council), and our staff members dr. Monique Kremer and dr. Robert Went (project coordinator), and brings together insights from external experts on a range of disciplines. The council is grateful to the authors for their contributions.

Prof. dr. W.B.H.J. van de Donk  
Chairman of the WRR





# 1 TOWARDS DEVELOPMENT POLICIES BASED ON LESSON LEARNING: AN INTRODUCTION

*Monique Kremer, Peter van Lieshout and Robert Went*

Modern development policies started already 60 years ago. The establishment of the Bretton Woods institutions in 1944 and Truman's inaugural address in 1949 were landmarks of a change of mind and approach. Prosperous countries in the North considered themselves good Samaritans by helping the countries in the South. In the following decades, West European countries tried to shift roles from being a colonizer to a supporter of development. When this new post-colonial relationship started, many Western countries expected it to be temporary. With a little help from their friends, the developing economies would 'take off' and become just as wealthy, stable and modern as countries in the North.

Now, six decades later and billions of dollars further, we know the development policies did not deliver what they promised. At the turn of the century, development in Africa, as well as in parts of Asia and Latin America, is stagnating. Economic growth in Africa in the 1980s and 1990s was lower than in the 1960s and 1970s. Many African countries are still heavily dependent on aid; it is not unusual for one-third of their GDP to come from aid assistance and three-quarters of their state budgets to come from donor money. By contrast, countries that have shown considerable growth over a number of years, such as China, India and Vietnam, did so largely without the help of Western friends, except Taiwan and South Korea, which benefitted from US support in the 1950s. To a large extent, Asian countries managed to develop because they ignored the development mantras; they did not open up their markets unconditionally to the world economy and kept controls on cross-border capital flows. Countries in Asia have done well without Washington. The only clear successes of aid can be found on the European continent. The first success story happened 60 years ago due to the Marshall plan. The second took place in Greece, Spain, Portugal and Ireland in the 1970s, thanks to money transfers from the European Union. The third success story can be found in Eastern Europe in the 1990s, where investments by the European Commission changed the economic, social and democratic landscape for the better.

It is therefore no coincidence that – not for the first time – a big debate is taking place on the effectiveness of foreign aid. While people such as Jeffrey Sachs (2005) try to seduce us to believe in ending world poverty by *doing more*, several former World Bank employees are questioning whether we are actually doing good after all. Paul Collier (2007) argues that, although global poverty is falling, the world's poorest people face a tragedy. In his analysis, the bottom billion is caught in four traps: the conflict trap, the natural resource trap, landlocked with bad neighbours,

and bad governance. He therefore proposes to shift the focus of development policies to a set of instruments to set them free. Aid itself will not help much: “The constituency for aid is suspicious of growth, and the constituency for growth is suspicious of aid” (p. 183). Military interventions, trade policies that also affect the Western world, and international charters that bind the bottom-billion countries are thought to be more helpful.

William Easterly – also previously at the World Bank – is outright disillusioned. In his best known book, *The White Man’s Burden. Why the West’s efforts to aid the rest have done so much ill and so little good*, he claims that aid has been doing wrong rather than good (Easterly 2006). None of the plans to reduce poverty have succeeded. After 60 years of reform models, dozens of different plans, and \$ 2.3 trillion spent, the aid industry has not been able to achieve its goals. He concludes that it is necessary to ban ‘planners’ from development policies and to employ ‘searchers’. Such searchers would be able to find effective ways by asking the poor themselves as well as accountable professionals what they think is necessary. Experimental reforms are preferred over striving to find the elusive Holy Grail.

## 1.1 PARADIGM SHIFTS

During these past 60 years, various shifts have taken place in the ways in which – or so it was believed – we could best support the development of countries in the South (Thorbecke 2007). These shifts are not always consensual among social professionals or economists, and there are important differences between and among NGOs, the IMF and World Bank, and UN organizations, which each have their own histories of development ideas. Having said that, a president of an average African country would have received very different advice from donor countries or multilateral organizations in the 1950s than in the 1990s (Lindauer and Pritchett 2002).

In the 1950s and early 1960s, he (assuming the president is a man) would be advised to borrow large sums of money from the Bretton Woods organizations (IMF and World Bank) so that the economy of his country could take off. He should have spent this money on infrastructure and on industrial policies, and asked for technical assistance. In these times, planning and import substitution strategies were widely used in Latin America (Huber, this volume), Asia, Eastern Europe (see e.g. Haggard and Kaufman 2008) and Africa (see e.g. Rodrik 1999) for development and the nation’s modernization (Lin, forthcoming) in an international environment that was – remember Bretton Woods 1944 – conducive to such policies (Amsden 2007). In this period, external financial injections were considered the main solution for development: the “financial push paradigm”. The idea was that the only barrier for developing countries was their lack of money, preventing investment. As soon as they could invest in enterprises, infra-

structure and education, their economies would grow, and their populations would become more prosperous. If they could only borrow capital from the West, they would overcome their problems. These ‘big push’ or ‘take off’ theories can sometimes still be heard, for instance from Jeffrey – *End of Poverty* – Sachs, but not very often.

At the end of the 1960s, our African president was a bit disappointed with the effects of borrowing money, and so was the Western world. He would be told, if he had not already noticed it himself, that financial investments did not automatically result in less poverty, more equal income distribution, and better health. In those years it had become clear that the dominant view on development focused too much on economic growth while inequality, unemployment and poverty could still persist. The important conclusion that economic growth is a necessary but not a sufficient condition for human development became inevitable. This conclusion was also drawn internationally when the United Nations evaluated what it had called the “first development decade” of the 1960s: more economic growth in developing countries had not resulted in less poverty or a reduction of inequality between poor and rich countries (Jolly et al. 2004). This meant that industrialization policies were not enough and that the state had to gain a stronger role, especially for investments in human capital via health and education, and in other sectors such as agriculture. Re-distribution also became a key concept. As Nobel prize winner Gunnar Myrdal (in 1968) argued, development means a transition or modernization of the country as a whole. Development became synonymous with an inherently socio-economic modernization path. Thus, this period can be characterized by a *social economic paradigm*.

In the 1980s, the debts of many developing countries exploded. Interest rates were raised by central banks in Western countries (the central bank of the USA, the FED, was the first in October 1979) in an attempt to bring down inflation, which had risen dramatically in the aftermath of the oil crisis of 1973-1974. In the early 1980s, many emerging economies were able to spend substantially more than their incomes, which was made possible by the ‘recycling’ of oil surpluses. This ended in tears during the debt crisis of the 1980s; Mexico was the first country to announce in August 1982 that it could no longer pay back its debts, leading to painful restructuring and adjustment processes. Our African president – or Latin American, for Latin America was hit particularly hard by the debt crisis (Huber, this volume) – was in big trouble again, and economic growth declined to levels lower than during the period after independence. Western organizations became stricter and wanted clearer contracts.

The main barriers for development were now detected in unhealthy macro-economic policies in developing countries, and in tight internal laws that prohibited markets from evolving: too much government and not enough market. Basi-

cally, overspending countries in the South were thought to mirror those in the West: hence the solutions were simple. Countries should live up to strict financial regulations, open up their markets for trade, create internal markets and reduce state bureaucracies. Markets could provide health care and education just as well or even better than governments. The dominant policies of these times became known as the “Washington Consensus” (see e.g. Williamson 2008), but as Stiglitz et al. (2006: vii) remind us, this consensus “mainly included policy-makers, located between 15<sup>th</sup> Street and 19<sup>th</sup> Street in Washington, site of the US Treasury and IMF headquarters, respectively. The consensus did not include *many other* people in Washington, academia, or the developing world.” A key element of this policy package were the Structural Adjustment Programs that our African president had to implement if he wanted to avoid losing support from the Western community. As Hoebink (this volume) explains, whereas he would have needed more emphasis on investments in health, education, agriculture and infrastructure, our African president was forced to disinvest. Development policies were thus characterized by a *free internal and external market paradigm with little role for the state*.

During the 1990s, it became clear that the reform package advocated by the Washington consensus could not work without being supplemented by a solid governance and institutional foundation. Thus, the initial reform list advocated by supporters of the Consensus was augmented with a series of so-called second-generation reforms that emphasized the role of institutions and governance (Felipe and Usui 2008). This “augmented Washington Consensus” (Rodrik 2007) or “Washington Consensus Plus” captures the view widely held by social scientists and policymakers that the quality of governance within countries is the main variable in predicting successes in development: without an adequate structure to implement policies, aid was going down the drain. The 1990s were thus dominated by a *governance paradigm* of development. “Excuse me, Mr President, last decade we indeed said it was important to marketize state functions and cut bureaucracy, but now we think it is important to have a well-functioning state, which is accountable and transparent. It would also be a good idea to combat corruption and become democratic if you still want to be entitled to our money.”

It is indeed a truism that countries that were not performing well on governance were not doing well in terms of development either. The gradual acceptance of this idea eventually reached Washington in the form of the recent report of the Growth Commission (Commission on Growth and Development 2008) that stresses the centrality of leadership and state capacity in producing sustainable growth. However, it also became clear that good governance is not the magic bullet either. Following the augmented Washington Consensus and implementing comprehensive reform packages are easier said than done, and do not guarantee big

benefits for a country; they can even result in building imaginary state institutions (Van Bijlert, this volume). Another problem is what the governance philosophy did entail for poor countries. For if good governance is a prerequisite for aid, those who needed it the most would not be helped (WRR 2001).

At the turn of the millennium, we were confronted with a painful paradox. We had come to the conclusion that there is no magic story for development, although aid had become popular once again, both in the media and in politics. After the demise of the Soviet Union (1991), aid flows had dropped significantly for a decade (22 per cent from the peak). But since then, the 'aid fatigue' has been turned into an 'aid boost'. The UN led an effort to achieve a new consensus around a number of development goals (MDGs). In 2000, participants at the Millenium Assembly agreed on the Millenium Development Goals and a fight against global poverty. Lacking any theory of development, the Millennium Goals focus on a number of hardly contested basic rights. Moreover, after 9/11, in the Monterrey meeting of 2002, the leaders of the richest countries raised aid to 100 billion dollars, including a major increase in aid from the US. In Gleneagles in 2005, the G8 promised to increase their imbursements even further. This boost in aid, however, has not been accompanied by a boost in credible aid strategies.

In short, the bottom line of this – admittedly very sketchy and global – overview of six decades of development policies is that there is no longer a 'one' development theory that can be offered to countries in the South aspiring for development. How would we now advise a president of an African country? Lindauer and Pritchett (2002: 17) argue that this has become nearly impossible:

"Any push towards deepening market reforms will be seen as a continuation of the failed strategies of the present, while any push towards strategies that call for government intervention and leadership (...) will be seen as a reversion of the failed strategies of the past. What is of even deeper concern than the lack of an obvious, dominant set of big ideas that command (near) universal acclaim is the scarcity of theory and evidence-based research on which to draw."

## 1.2 GLOBALIZATION

Such a void is all the more striking when we realize that our world is changing rapidly thanks to various developments that are often captured under the umbrella 'globalization'. Firstly, there are more countries and other donors involved in the field of development aid than ever before. The number of official aid donors – bilateral, multilateral, private – is now 200, and there is also an increasing number of smaller initiatives. While in the 1960s an average developing country had to deal with 12 official donors, in 2005 this has almost tripled to 33; there are at least 30 countries in the world which have to bargain with 40 official donors (Riddell,

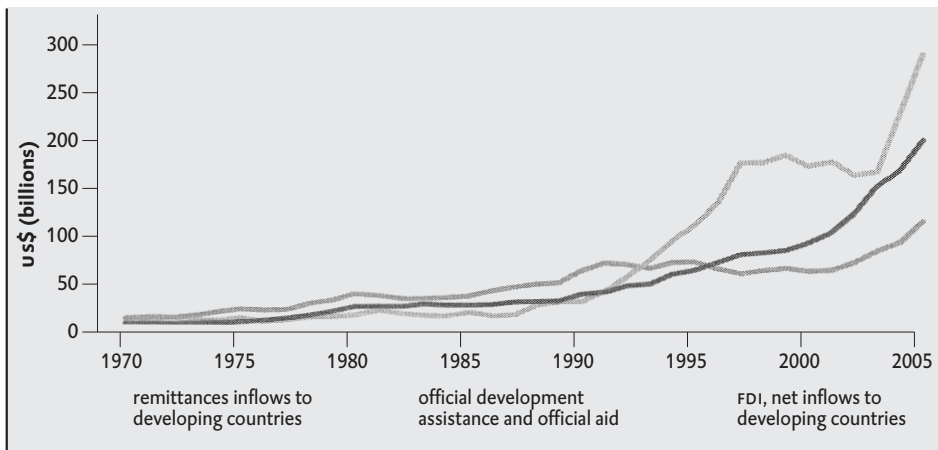
this volume). On the one hand, this is an expression of the fact that, after a period of stagnation, countries are giving more aid. The prominent example is the USA, which raised its aid budget after 9/11. Other countries now involved in giving aid include East European countries that have joined the European Union. This proliferation of donors urgently calls for donor coordination, which is still a big problem, notwithstanding the efforts to set up new mechanisms for coordination with the Paris Declaration and the Accra Agenda for Action. Sector-wide approaches and budget support are already in place in some countries, but still leave much to be desired; they tend to be wish-lists of spending departments instead of developmental strategies. Less than 25 per cent of the countries receiving aid have national development strategies with a long-term prioritized vision which is clearly linked to their national budgets. Fewer than 10 per cent of the recipient countries have sound frameworks to assess and monitor development results. Therefore, the linkage between development strategies and resource allocation is weak at best (OECD, 2008).

There are also new players that used to be developing countries themselves, notably China and India. In particular, the increasing Chinese involvement in Africa has received much attention. Not only are many Chinese people living and working in African countries, they are also involved in development projects, especially infrastructure. On a more general level, Kaplinsky (this volume) argues that the rise of China and India challenges major conventional wisdoms underlying development trajectories for sub-Saharan Africa. He also identifies new opportunities which are opened up for African countries by the rapid growth and global presence of the “Asian Driver economies” China and India. A key question for the West, then, is how it can recalibrate its place in this new and changing international development community.

Secondly, official development assistance (ODA) is not the only or even the most important flow that is important for development. Other financial flows (Figure 1) and flows such as trade and migration (see Kaplinsky and Skeldon, this volume) are (much) more vital for most developing countries, although the financial crisis has very negative effects on the size of the flows. So far, some of them have not received much attention from researchers and academics focusing on development. Migration, for instance, has not only resulted in large transfers of money but also brings about discussions on the transfers of knowledge and values (Faist 2007; Saxenian 2005; see also Skeldon, this volume). Foreign direct investments (FDI) have been studied for some time by academics and UNCTAD, but more attention is needed for FDI as an instrument for development. More generally, there is increased attention for the active role that firms (multinational corporations or local enterprises) can play in achieving development, either directly through corporate responsibility (CSR) activities or in the form of partnerships with non-governmental organizations (NGOs) and/or governments. Fortanier and Van Tulder (this volume) argue

that there is no reason for undue cynicism or excessive optimism when assessing these corporate strategies towards development. Edwards (this volume) takes a critical look at some of the more hyperbolic claims about “philanthrocapitalism” from big companies and billionaires, who not only emphasize their fight against poverty but also claim that they can do this more effectively than the traditional NGOs, international organizations and the state. Some of the arguments that are being used in this debate are similar to the ones expressed by the many thousands of small private initiatives that individuals now initiate, varying from setting up a hospital to supporting the education of a student.

**Figure 1.1 FDI, remittances and aid to the developing world, 1970-2005**



Source: Commission on Growth and Development 2008

The relation between the instruments of military interventions or peace operations and development policies has also gained importance (Van den Borgh, Van Bijlert, this volume). In the aftermath of the Cold War, a number of civil conflicts broke out, often with huge numbers of civilian casualties. The international community found it difficult to come up with the right answers. The number of UN peace operations tripled between 1987 and 1994. Providing some form of relief, it soon became evident that peacekeeping operations were just part of the answer. After 2002 the number of armed conflicts declined, but the negotiated settlements that came about were far from stable. Making opposing forces stop fighting is one thing, but building up a society is a completely different question. The former may take several months, the latter several decades. It also requires skills and types of intervention that were (are) not readily available in the standard international aid-kit. Building a well-functioning judiciary system or a trustworthy and competent police force or national army, to give some examples, is something beyond the traditional scope of the aid community.

It is now almost a cliché to argue that our world is becoming more interdependent. Peace, security, food, illness, climate change and financial stability are among the increasing number of themes that connect people around the globe. Added to the increasing number of new players and new flows, the question evolves of whether the classic aid paradigm is still suitable in an era of globalization. Researchers from the United Nations Development Program (UNDP) have therefore introduced the concept of “global public goods” to the international governance agenda (Kaul et al. 1999). Development is more and more a process with many drivers that are connected on a global level. A true recognition of globalization therefore means a shift from one-way aid assistance towards back-and-forth development policies. Moreover, the new interdependencies that we have pointed at urge us to rethink our ethics towards justice. If the world is bigger and we are more interdependent than ever, what does this imply for what is ‘doing good’? And are we allowed to intervene, and should we (Pekelharing, this volume)?

### 1.3 AT THE BEGINNING OF THE 21ST CENTURY: ELEMENTS FOR DEVELOPMENT POLICIES BASED ON LESSON LEARNING

As far as it is necessary – and possible – to propose a unifying approach for development policies in the 21<sup>st</sup> century, we submit that a key feature that can be drawn from the academic literature and from the articles in this book is what we – for lack of a better term – call ‘lesson learning’. Such a ‘learning paradigm’ consists of several elements.

The first is the importance of a diagnostic (Rodrik 2007) or clinical (Sachs 2005) approach. Development policies have to be tailored to the specific situation, history and development stage of a country – there are no ‘one size fits all’ solutions or magic bullets, and even no best-practice policies that will always yield positive results. In Easterly’s terms, it is necessary to give space to searching, i.e. trying to find useful tools to contribute to development. However, a diagnostic approach stresses that reform efforts also need to be selective and to focus on the identification of ‘binding constraints’ for development. Whereas there is no fool-proof method of identifying binding constraints, common sense and economic, political and social analysis will help. The Asian Development Bank (ADB 2007) and other organizations – including DFID and the Millennium Challenge Corporation (MCC) – and researchers have begun to work with similar approaches. Experimentation and learning about the nature of binding constraints are an integral part of any reform process. Thus, our African president would be advised to diagnose constraints for development and subsequently focus his policies on curing the most important ones.



In this approach, development is broadly defined. As Thorbecke (2007) argues,

“(t)he definition of development broadened from being tantamount to GNP growth, as both an objective and a performance criterion, to growth and employment, to the satisfaction of basic needs and, ultimately, to the enhancement of human welfare and the reduction of multi-dimensional poverty to be achieved through a pattern of pro-poor growth.”

Thus, development evolved from “an essentially scalar concept to a multi-dimensional one entailing the simultaneous achievement of multiple objectives”. Such a definition stresses the importance of growth as a necessary but not a sufficient condition for development. Political and social development are also included.

The next element for development policies in the 21<sup>st</sup> century is pragmatism and allowing for diversity. Chang (this volume) shows that many small, rich, European countries have dealt with ‘traps’, such as the ones discovered by Collier (2007), in a creative and unorthodox way. He shows that even ethnic diversity is not necessarily a trap if we take the historical developments of Belgium and Switzerland into account. Ho (this volume) focuses on China and argues that we have to go beyond development orthodoxies to learn from what comes down to gradualism and credibility, or what the Chinese call “pragmatism”. And Kaplinsky (this volume), to give another example, makes clear that some countries, particularly in sub-Saharan Africa, are not helped by a level playing field for trade, underlining the point that we should not have the same rules for all countries. Policies can hamper some countries and help others, and the reverse may be true for other options.

Another element of the new paradigm is the importance of social texture, path dependencies, local contexts and footprints. This becomes clear when we analyse peace building and consolidation (Van der Borgh, Van Bijlert, this volume) and also when we realize that the impact of migration on development is dependent on the social and economic realities within home countries (Skeldon, this volume). Van Bijlert not only emphasises the importance of institutions, but also shows that it is nearly impossible to ‘build’ institutions from the outside. In trying to fix institutions, it is often underrated how tough social texture can be. Too often it is assumed that institutions that are working well in the West can be copied and set up quickly in less-developed countries, too. In a similar vein, Molenaers and Renard (this volume) show how the social dimension has been stressed via a new participation paradigm, in a very naive way. They argue that including citizens’ voices in development policies is not the answer because NGOs are not a repair kit for failing policy processes. Donors generally have an overly simplistic view of civil society.

According to Stiglitz (2006), what it takes to “make globalization work” is a different balance between state, market and society. Another element that evolves is therefore a rethinking and reappraising of the role of the state. In Afghanistan, it is clear that the state is very important but difficult to support, and aid donors are even undermining the state (Van Bijlert, this volume). Pekelharing (this volume) shows that without the state, development and justice are very difficult to reach. Based on experiences in Latin America, Huber (this volume) stresses the importance of inclusive universal policies by the state. And Nederveen Pieterse (this volume) argues that with the unravelling of neoliberal or Anglo-American capitalism, current trends are towards a return of state-regulated capitalism.

These are the contours of an emerging paradigm, but we should not forget the last, very important, one: modesty. For doing better entails being more modest. Our interventions are necessarily limited. Instruments for development can only be of use when development is already taking place. Aid, trade, migration, or peace building can only be powerful tools for promoting development in countries that are helping themselves by following growth-enhancing and stability policies. Or as Nederveen Pieterse shows: we have moved from “we developed it” to “we develop”. In addition, such instruments are only helpful if they are more aligned and interconnected. Kaplinsky argues for example that aid, trade, and FDI can be interlinked, learning from how China is operating in Africa. Only then could policies, at best, catalyse development.

The new paradigm for development that comes after the “Washington confusion” will put the locus once again where it belongs: on the developing countries and the mix between societies, markets, and states. Rather than prescribing recipes, development policies should be based on learning processes in which local contexts, path dependencies, modesty and pragmatism are placed at the centre. Developing countries should no longer focus on Washington but choose their own development paths. Not by trying to copy-paste policies or institutions from rich, already developed countries, but by adapting to local circumstances the lessons from the muddy pathways of development trajectories of European, Latin American, African and Asian countries.

*The Hague, November 2008*

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## 2 TWENTY-FIRST CENTURY GLOBALIZATION, PARADIGM SHIFTS IN DEVELOPMENT

*Jan Nederveen Pieterse*

According to a recent headline, “China says West’s lack of market oversight led to subprime crisis”. A senior Chinese banking regulator points out, “Western governments must strengthen their oversight of financial markets and improve cross-border regulatory cooperation if they are to avoid future global financial crises” (Anderlini 2008).

The tables are turning. The North used to lecture and discipline the South. In the 21<sup>st</sup> century not only has much of the South escaped this discipline – and repaid its debts to the IMF early – but some have started talking and acting back. These are not minor glitches. In the case of China, it involves a \$ 2 trillion question, which is approximately the size of its dollar holdings.

In the first section of this treatment, I shall discuss major changes in 21<sup>st</sup>-century globalization. The second part turns to the purport of these changes and trends in development policies. With the unravelling of neoliberal or Anglo-American capitalism, current trends are towards a return of state-regulated capitalism. In relation to the contemporary development strategies, I explore three trends: newly industrializing countries in the global South have become important drivers of the world economy; the agency of development shifts from metropolitan centres to developing countries; and the pendulum swings from markets to states. These trends are affected by the 2008 economic crisis, but not fundamentally. I close with a brief reflection on the implications for international development cooperation.

### 2.1 TWENTY-FIRST CENTURY GLOBALIZATION

The 1990s were marked by the dominance of neoliberal approaches. The problems were clear all along, certainly from development and social points of view, but as long as Anglo-American capitalism was thriving, many criticisms fell on deaf ears. Capital flowed to what seemed to be the most dynamic, innovative and profitable forms and centres of capitalism. Wall Street and London City led the way, and Tokyo and Frankfurt, Singapore, Hong Kong and Shanghai followed. Finance capital was crisis-prone, but the crises occurred, time and again, in the peripheries and semi-peripheries of world capitalism and served as tools to discipline emerging societies and to align their economies with dominant trends in the world economy.

In the 21<sup>st</sup> century the tide has turned. From the turn of the millennium, the landscape of capitalism, and hence the landscape of development, began to change. The United States experienced a series of crises: the dotcom collapse, the September 11 attacks, the Enron and Anderson series of corporate scandals, Hurricane Katrina, the subprime mortgage crisis and the financial crisis of 2008. The Federal Reserve's easy credit regime of low interest rates papered over economic problems by facilitating excessive borrowing by consumers, banks and hedge funds. Subprime mortgages were the latest extension of the pyramid scheme of Anglo-American capitalism. In August 2007 the credit levees broke and the housing bubble popped, producing a financial crisis larger and more serious than any since the Depression.

American capitalism has gone from crisis to crisis, with the management of each crisis precipitating the next. The crescendo of crises demonstrates the downside of neoliberalism, the flipside of deregulation. According to the new refrain, the market is *not* self-healing. Hence the massive government interventions in Wall Street and the new chorus: "Goodbye capitalism American-style".<sup>1</sup>

Financial crises used to take place in the emerging economies of the South. The crisis of 2007-08, however, hit American and European banks while emerging markets were unscathed, at least initially. When the financial crisis brought about economic slowdown not only in the US but also in Europe, its effects spread to emerging economies as well. For decades Wall Street financial powerhouses were the winners of globalization and the beneficiaries of financial turbulence; now sovereign wealth funds from the global South kept Wall Street banks afloat by buying into them. The funds came from two major sources: Asian countries' accumulated wealth from exports – with Singapore and China in the lead; and oil exporters – with Gulf emirates and Norway in the lead. Who could miss the irony – the powerhouses of free enterprise rescued, for awhile at least, courtesy of state capitalist institutions?

With the 21<sup>st</sup> century have come momentous changes. Some are the deepening of trends that have long been in motion, and some have been radical ruptures. Two major trend breaks are the weakening of neoliberalism and American hegemony. Neither has left the stage, but they are on the losing side, face mounting problems and gathering no new adherents. Neoliberalism – essentially the style of Anglo-American capitalism turned into doctrine, aka market fundamentalism and extreme capitalism – meanders from crisis to crisis and has begun to cave in under its own excesses. The weakening of American hegemony has been in the cards for some time but has been hastened by conservative overreach, in particular the wars in Iraq and Afghanistan.<sup>2</sup> Table 2.1 gives an overview of the differences between 21<sup>st</sup> and 20<sup>th</sup> century globalization and of the emerging international division of labour. For a discussion, I refer to the source (adapted from Nederveen Pieterse 2008a).

**Table 2.1 Trends in twenty-first century globalization**

<b>Pattern 1980-2000</b>	<b>Pattern 2000s</b>
<b>Trade</b> North-South trade dominates us-led trade pacts dominate Trend to regional/global trade pacts	Growing South-South trade WTO, FTAA, APEC are in impasse or passé Shift to bilateral FTAs (in North-South trade)
<b>Finance</b> Finance capital leads, crisis prone IMF, World Bank discipline developing economies us dollar world reserve currency us top destination of FDI Western financial markets dominate IMF blocks Asian monetary fund Investment banks, hedge funds	Emerging economies hold dollar surpluses IMF warns us policies threaten economic stability Multi-currency world China top destination of FDI New financial flows outside the West Thai Asian Bond Fund; Bank of the South Sovereign wealth funds
<b>Institutions</b> Convergence IMF-WB-WTO Social liberalism, poverty reduction ‘Wall Street-Treasury-IMF complex’ Washington consensus	IMF lending down (2003 \$70bn, 2006 \$20bn) World Bank lost standing Weak Treasury, Wall Street crisis No consensus
<b>Hegemony</b> us hegemony solvent and dynamic ‘Clash of civilizations’ us led security	us in deficit and cornered in new wars Muslim backlash New security poles and axes (such as Shanghai Cooperation Organization)
<b>Inequality</b> Growth & increasing inequality (except East Asia) Deepening rural and urban poverty	Inequality between north and NIES decreases; Inequality in NIES increases Deepening rural and urban poverty International migration as flashpoint of global inequality

## 2.2 TURNING POINTS

With the onset of the 21<sup>st</sup> century, new trends are the rise of the global South, the growth of South-South relations in trade, energy and politics (UNCTAD speaks of “a new geography of trade”), and the growing role of the leading emerging societies and sovereign wealth funds.

The tide in South-North relations had begun to turn earlier. The Asian crisis of 1997-98 was a major turning point. The way the IMF handled the crisis was deeply problematic – aggravating the crisis by imposing cuts in government spending even though private spending caused the deficits; vetoing Japan’s bid to establish

an Asian monetary fund while mismanaging the crisis. American banks and hedge funds used the crisis to buy up distressed assets. This signalled that North-South competition had begun in earnest, not just in agriculture and manufacturing, but in finance. Since then developing countries revised their attitude towards the international financial institutions. To safeguard their financial autonomy, developing countries began to accumulate hard currency reserves as buffers against financial turbulence, at times sacrificing social investments for the sake of financial security.

The second major turning point in North-South relations came with the WTO ministerial meeting in Cancún in November 2003. Under the motto no deal is better than a bad deal, the global South walked out, with Brazil, South Africa, India and China leading the way, followed by the G22 and, in turn, the G77. This time Western divide and rule didn't work, nor did it work during the following years, the repeated attempts to revive the Doha round and the exhortations of Western negotiators. This was a major signal of the new weight and cohesion of the global South. Countries that are not part of the global power structure, not part of the G8 nor of the UN Security Council (except China) made their global influence felt.

### 2.3 NEW DEVELOPMENT ERA

We can identify the following main eras of development. First, the preludes to development policy from the early 1800s, from classical political economy to Ricardo and Marx. Second, the catch-up policies of the latecomers to industrialization from the mid-19<sup>th</sup> century to the mid-20<sup>th</sup> century. Third, the post-war period of the Keynesian consensus, broadly 1950-1980. Fourth, the neoliberal era of the Washington consensus, 1980-2000. Thus, in post-war development policy there have been two major phases, the Keynesian consensus and the Washington consensus, and arguably, a third has begun. The thesis of this treatment is that the 21<sup>st</sup> century ushers in another development era. That it represents a new phase is clear, though it is less clear what its contours are or its label should be. We might tentatively characterize the period that has just started as, in shorthand, the comeback of states.

During 1980-2000, the main rift in the development field was the tension between the Keynesian approach and the Washington consensus; in brief, the state-centred and the market-led approach, rippling through the development field analytically, ideologically and politically. Institutionally, the main tension in development policy was the rift between the Washington institutions (the IMF and World Bank, aligned with the WTO) and the human development approach (represented, with oscillations and vacillations, by the UNDP and other UN agencies, development ministries in developing countries and some agencies of inter-



national development cooperation). This rift defines 25 years of debate and contestation in development studies, which in recent years has been receding as fast as the Washington model.

Major components of the 21<sup>st</sup> century development field include the following: 1. Newly industrializing countries (NIEs) in the global South are increasingly important drivers of the world economy. 2. From 'we develop it' to 'we develop', or a change in the agency of development from metropolitan centres to developing countries. 3. The pendulum swings from market forces back to states. I devote vignettes to each of these trends.

### ***1. Newly industrializing countries are important drivers of the world economy***

During 1980-2000, the United States was the driver of the world economy, with American consumers and the financial sector leading the way. Some 70 per cent of the American economy is driven by consumption. Via 'retail therapy' this path led to overconsumption and mounting consumer debt and proved to be unsustainable. Financialization of the economy made Wall Street financial engineering – increasingly arcane and unregulated – the arbiter of the economy. When this reached its apotheosis in 2008, the world economy had begun to 'decouple' from American consumers for some time.

In the 21<sup>st</sup> century, the driver of world economic growth has gradually been shifting toward newly industrializing countries.<sup>3</sup> This has proved to be a sustainable industrialization, well beyond the "associated dependent development" diagnosed by Cardoso or the idea that Asian industries are mainly overseas sweatshops of American capitalism. The Asian tiger economies and China have been undertaking technological upgrading. China has overtaken the United States as the world's leading exporter of technological products and nears Japan in research and development spending (though its share in patents remains minuscule). Industrialization in the South is sustainable, too, in that it outlasts shrinking American consumer demand – which is anticipated and inevitable in view of American indebtedness. Alternative markets for Asian industries have taken shape in growing domestic demand, regional markets, South-South trade and trade with Europe. Whether the new industrialization is sustainable in an ecological sense is a different matter.

The new industrialization is a decisive factor shaping the horizon of the world economy. The early 21<sup>st</sup> century structurally resembles the 20<sup>th</sup> century post-war boom, the 'golden years' of capitalism – except this time the industrialization occurs in Asia, Latin America and Eastern Europe. As before, industrialization as driver (rather than consumption and FIRE [finance, insurance, real estate]) boosts demand for commodities, and rising commodities prices tend to have a relatively equalising effect between industrial and peripheral economies. A general rule is

that when commodity prices are high, the IMF is weak (Petras 2007: 41). High commodity prices enable early repayment of IMF debts and reduce the need for new loans. Accordingly, the influence of the Washington consensus (augmented or not) has been shrinking as rapidly as financial dependence on Washington has been receding.

For some time growth rates in the global South have been much higher than in the developed economies. Even in African countries, the classic basket case of 20<sup>th</sup> century development, growth rates in recent years have been on the order of 6 per cent. These growth rates are achieved without incurring external debt – unlike in the United States where sluggish growth of 1-2 per cent, or recession, is being attained with gargantuan external borrowing (\$ 2 billion per trading day, \$ 700 billion per year) that absorbs 70 per cent of world savings. Third, this growth is not a blip but has been sustained through cycles and shifts in patterns. Fourth, accumulation patterns have changed, as became clear during the 2008 financial crisis when sovereign wealth funds from the global South stepped into the breach. Fifth, as the success model of 1980-2000, Anglo-American capitalism, unravels due to successive crises, accumulation strategies and philosophies have been changing.

Most analyses treat the unravelling of American capitalism as a case of deregulation gone too far and permissive capitalism, producing unprecedented rich-poor polarization and fraud on a massive scale. In contrast, for developing countries the model to emulate has long been East Asia. “Looking East” has been the norm for almost two decades. That “the next phase of globalization will most likely have an Asian face” is by now a cliché.<sup>4</sup> Meanwhile, however, there is no “Asian model”, and of course, East Asian societies are battlefields and arenas of struggle, so besides a general sense of direction, what one is meant to emulate is not clear.

In the coming years, growth in leading emerging markets, even if it is severely curtailed in the wake of the 2008 crisis, will still be on the order of 6 per cent (lower in Latin America and Africa) while growth in the US, Europe and Japan will be 1 per cent at best. Thus, the irony is that developing countries, the erstwhile stepchildren of the world economy, have become its locomotive. This shift is noticeable at many levels, in headlines such as “BRICS could point the way out of the economic mire” and reports of sovereign wealth funds in the global South scanning Western economies for good deals in a distressed economy.<sup>5</sup>

During the 1990s globalization was welcomed in the West and suspect in the global South. In the 21<sup>st</sup> century it is almost the other way round. According to a recent poll, 57 per cent in G7 countries think that economic globalization is too rapid, whereas the majority in developing countries thinks the pace is just right.<sup>6</sup> This is reflected in positions on trade. During 1980-2000 the advanced countries pushed for freeing up trade; now in several respects they have retreated to protectionism.<sup>7</sup>

## 2. From ‘we develop it’ to ‘we develop’

Referring to the Growth Commission report that came out in 2008, Dani Rodrik sums up the change in perspective: “The Spence Commission verdict is that the rulebook for developing countries must be written at home, not in Washington” (2008).

During the Washington era, neoliberal macroeconomics governed development, too, on the premises that there is no need for economic development as a “special case” and developing economies will benefit from embracing market forces. Thus, the “counterrevolution in development”, as Toye called it, meant the termination of development economics. What ensued in practice was that actual development policy was left to international institutions, donors, development agencies and NGOs, who consorted with developing country institutions. Indeed, in development studies “development” usually refers to what is being done, and not done, by the development industry. Thus, implicitly, development is thought of as an external intervention. The root paradigm is not ‘we develop’ but ‘we develop it’. Cowen and Shenton (1996) argue that intrinsic to development thinking is a deep, unresolved friction between development as an immanent process (it grows, we grow, we develop) and as a transcendent process (we grow it, we develop it).

Much post-development thinking is, in effect, a repudiation of development as an external intervention and discipline (as well as a rejection of neoliberal hegemony). “Indigenous development” is an alternative option but poses different problems (what is indigenous, what is the unit of development?).

The development industry is rife with fads and buzzwords, for buzzwords synchronize diverse actors and stakeholders (Dahl 2008). The turnover of fashions conceals the low success rate of development interventions. The declaration of assorted new development targets – such as the Millennium Development Goals – helps divert attention from the fact that no previous targets have been attained, even remotely. The development industry is, in no small measure, a rhetorical industry, an ideological performance in which discourse production, paradigm maintenance and tweaking the perception of receding horizons are the actual achievement.

The ideological proclivities of Washington used to occupy the front burners – incentives, market forces, good governance, transparency, civil society and ‘participation’ and ‘empowerment’ as ways of sharing the Washington utopia. As states retreated from society, NGOs filled the space. Thus, the salience of civil society and NGOs accompanied the predominance of market forces as an organizational counterpart to the hegemony of business.

Questions of rural livelihoods, urban poverty, ecological changes and democratic struggles, the gritty questions of development, were temporarily outflanked by neoliberal utopianism, the rollback of state oversight and IMF and World Bank regimes; now that the neoliberal era is receding, the development landscape is reverting to its 'normal' mode of development struggles, and the nitty-gritty of development is coming back on the front burner. Development is again becoming development and no longer a franchise of the 'magic of the marketplace'. The comeback of development means the background becoming the foreground. In developing countries, of course, development never left; the developmental state, even if emaciated by structural adjustment programs, was never quite gone. In development debates much energy went into contesting the hegemony of the market and neoliberalism. Now the long drawn out critiques of Western economic, ideological and cultural hegemonies are gradually becoming superfluous. The major target of criticism of the previous period has become a background issue, still pertinent, but on the backburner. With American capitalism unraveling, who needs to criticise American ideologies?

In one account the new emerging paradigm has been characterized as the "Beijing consensus" (Ramo 2004). This has a certain historical elegance: the torch passes from one hegemon to the next, whose ethos henceforth is the new rule. But it is also quite misleading. First, what the Beijing consensus is supposed to represent is so general and vague that it is little more than development common sense (such as financial autonomy and cautious and strategic interaction with global forces). Second, it replicates a fundamental fallacy of Washington thinking – that one size fits all, the very idea of a 'model', which is a fallacy before and aside from the contents of the model. Third, it glosses over steep political differences *in* Beijing and China (e.g. Hui 2003; Xin 2003; Mittelman 2006). Fourth, intimating a transition from one hegemon to the next skips over the much likelier and more realistic trend of multipolarity or, alternatively, nonpolarity (Haass 2008).

The wish for an overarching paradigm in development, a master key, is as acute as ever. A colleague in Thailand observes,

"several 'alternative development' concepts are hovering around in Asia including sufficiency economy, human security, engaged Buddhism and gross national happiness. People in the academic world (in our case: Thailand Research Fund) need an overarching framework, a synthesis, to bring things together and/or sort them out in order to make common action and policy advocacy more effective (transformative), less blurred and more inspiring."<sup>8</sup>

In philosophies of development and the role of government, there are major differences in and between developing countries. The idea that there would be or should be a single forward path and development model lies well behind us. The

idea of societies in the South not simply waiting for the opportunity to mimic advanced societies but shaping their own paths was dominant during the era of decolonization, became faint and distant music in the 1980s and 1990s, and is now becoming more audible. Multiple modernities have been a rising theme. Likewise, the notion of different capitalisms has taken on concrete profiles.

### **3. *The pendulum swings back towards state capacities***

In advanced societies a new balance is taking shape, a turn away from market fundamentalism and towards re-regulation. Banks have been so leveraged with risk that re-regulation is inevitable. "I think, therefore I am increasing regulation."<sup>9</sup> Restructuring Wall Street in the wake of the 2008 crisis might turn banks towards the continental tradition of public service banking – although more likely, in view of the *rapport de forces*, is the socialization of risk combined with business as usual. In the wake of financial crisis, the models of regulation that had been dismissed by the smart set in Wall Street and Washington have come back looking good. The mixed economies and coordinated markets of Japan, Germany and Scandinavia suddenly look different – less dynamic, less profitable, but more stable and sustainable, precisely as Michel Albert had argued years ago in his parable of the tortoise and the hare (for Rhineland and American capitalism, respectively) and Ronald Dore had argued in his critiques of shareholder capitalism. As before, in the slipstream of the Enron scandals, the firms and sectors in European economies that have been most vulnerable in 2008 are mostly those closely interlinked with American branches or financial operations.<sup>10</sup>

The pendulum swings toward greater regulation both in the West and as part of the rising influence of the South. The BRIC economies [Brazil Russia India China] are typically societies with large public sectors. The rise of emerging societies brings back the era of developmental states. Again, development strategies and policies rest primarily with the states of developing countries.

Once the polemic with Washington recedes, other problems show up. Implicit in the discourse of emerging markets is accepting development as a numbers game. Once certain growth thresholds are crossed, they afford entry into the global hierarchy. Economic growth begets economic power begets political power begets geopolitical power begets cultural standing. Such is the appeal of this path that the situation is not 'development is for people' but people serve to achieve development targets, which enable elites to gain entry into global echelons and, for instance, purchase metropolitan real estate or English second-league soccer clubs. It is tempting to applaud the arrival of emerging societies and to view it as an emancipation of sorts because we are at a historic juncture, yet doing so also implies an extension and institutionalization of present patterns rather than a transformation. Emerging markets meet with applause because they have become an annex of world capitalism rather than transforming its compulsions. As ratings

record the growth of middle classes in China, India and Latin America, workers and peasants are absent from the accounts.

At the present juncture state capacities hold trump cards, including developmental states in emerging societies, energy-exporting states and regulatory capacities in developed countries. This is not a return of state capitalism or a rerun of Keynesianism for several reasons. First, the Asian tiger states acted in tandem with market forces – conglomerates in East Asia and multinationals from the west; industrialization in East Asia unfolded in tandem with deindustrialization in the United States – which involves a growing trade and financial imbalance that is not sustainable and not reproducible. Second, the authoritarian character of the East Asian tigers is not an enviable or replicable model. The interest now is in democratic developmental states. Third, the comeback of the state takes place in a context of post-Fordism and concerns state capacities that are responsive and agile in partnering with the private sector and with social forces and able to engage and foster creative economies. That there has been no development success without a developmental state is the lesson of Japan, East Asia, China and India. Although the World Bank claimed that the “Asian miracle” was the success of liberalization and export orientation, it would not have materialized without developmental states. Although Thomas Friedman and others cast the rise of China and India as victories of liberalization and unleashing market forces, research shows that the foundations for their economic achievements were laid during the time of Mao and Nehru.<sup>11</sup> Ample research confirms that states play key roles in development.

The pendulum swing back to the state pivots the spotlight to problems old and new. States typically face problems of capability in policy design and implementation, local government capacity, accountability and corruption. Further key problems are: in South Africa, delivery of public services and job creation; in China, ecological damage and quality control of food and other products; and in India, infrastructure, rural livelihoods, social inequality and education. Behind the questions of state capabilities loom deeper problems: problems of power, commitment, and the relationship between growth and development.

A recurrent problem is the capture of the state by strategic groups. The state is the expression of a social hierarchy, and state power is commonly used to maintain that hierarchy. States from Singapore to the Arab emirates maintain a hierarchy by means of an ethnically stratified division of labour. Development thinking often implicitly assumes a shared vision of an inclusive society, but this is by no means a given. It is all the more so a profound challenge in an age of increasing migration and multiculturalism. In societies that make intensive use of migrant labour, such as the Persian Gulf, imaginaries of social development require a sense of regional responsibility and a broadening culture of citizenship. Without an inclusive ‘we’, there may be pockets of growth, but there is no development. An imaginary of

social inclusion is a prerequisite without which there is no context or rationale for broad-based development policies. Thus, India's hiatus between state and society hampers development thinking and policy fundamentally. China's social revolution, for all its problems, has inculcated a basic sense of social equality into political streams. A further consideration is that 'stateness' is a variable and not a given; what is understood by 'state' and how it functions varies widely between different types of society, say between France, Morocco and Pakistan, and between different parts of a society, such as coastal and inland Somalia.

Social imaginaries also affect the understanding of the relationship between growth and development, or in other words, the relationship between peaks and valleys. What has been emerging is not a 'flat world' but a world of peaks and valleys, a spiked world, in Richard Florida's words (2008), and some spikes (in innovation, research and development, productivity, and so forth) have been emerging in the global South – such as the "new champions" and rising multinationals in emerging societies (Sirkin et al. 2008). The pursuit of peaks (of excellence, competitiveness) is crucial to growth, but maintaining a balance between peaks and valleys is crucial to development. As gradients of accumulation climb in the South, so do gradients of power. Yet, "it is essential to remember that the well-being of humankind is the essence of development," notes Deepak Nayyar. "The litmus test for the performance of an economy, hence government, is neither economic growth, nor economic efficiency, indeed not even equity in an abstract sense, but whether or not it meets the basic needs and the growing aspirations of people" (2006: 827). In India there is also a practical rejoinder: "Even if the share of rural India in national income is less than its share in the population, its share of votes is directly proportional. And rural India decides for the republic at election time" (ibid. 828).

The North-South gap has been narrowing, at least with the upper-income developing countries. With newly industrializing countries becoming locomotives of the world economy, the question becomes all the more pressing: what about inequality *in* emerging societies? Here a key question is the nature of accumulation. Is inequality built into the growth path or does it recede with growth; is growth polarizing or is it geared towards inclusive development? Is the pattern of accumulation based on a narrow track of economic growth or is it geared toward achieving broad-based development?<sup>12</sup>

Fast growth or broad-based development is a classic dilemma. In the 1960s Eisenstadt warned that mass mobilization reduces state autonomy in implementing reforms (1966). Part of the discreet subtext of development studies is that modernization is not the same as democratization. In the 1970s World Bank economists advocated a policy of growth and redistribution. By the 1980s this was sidelined by the neoliberal approach of growth plus trickle down. Then the UNDP took up the

position of growth through redistribution and renamed it human development. Thinkers in the human development school – such as Streeten, Jolly, ul Haq, Griffin – argue that viewing growth and distribution as a trade off is spurious in relation to growth in general and more so if we view human development not as a means but as the end of development.<sup>13</sup>

The fast growth approach favoured by the World Bank and the Washington consensus during the previous development era was capital and foreign direct investment-intensive and export-oriented. Development targets such as Malaysia's 2020 and India's 2025 may distort priorities. Ratings and rankings turn development into a numbers game. Development becomes the pursuit of growth that is unsustainable – environmentally, socially because it entails social polarization, economically because it depends on capital inputs and exports and fosters crony capitalism and speculative trends.

The growth paths of newly industrializing countries set new standards which are reflected in the report of the Commission on Growth and Development (Growth Report 2008). Drivers of growth, according to the report, are private-sector investment, entrepreneurial activity and innovation responding to market incentives. As a consensus document, the report confirms every major ideological disposition – Schumpeterian principles, the global economy as an enabling factor, the importance of competition, and anti-state as well as developmental state perspectives. Dani Rodrik notes,

“the report manages to avoid both market fundamentalism and institutional fundamentalism. Rather than offering facile answers such as ‘just let markets work’ or ‘just get governance right,’ it rightly emphasizes that each country must devise its own mix of remedies. Foreign economists and aid agencies can supply some of the ingredients, but only the country itself can provide the recipe” (Rodrik 2008).

Although it is cast as an augmentation of the Washington consensus, there is little ‘Washington’ to its leanings. The report’s controversial part is the large role it attributes to the public sector in mobilizing and steering growth – building a coalition around a growth path, pacing and sequencing development so job destruction is balanced by job creation, and ensuring that growth is inclusive and sustainable. In other words, market forces generate growth, but it takes the public sector to see to the quality of growth.

Quality growth and sustainable growth have been Achilles heels of Anglo-American capitalism. As advanced countries are undergoing a transition to high-end service economies, the societies best placed to do so while sustaining social cohesion and without deepening social inequality are social market economies with



large public sectors and public investments in education, health, social services and technological and ecological innovation. This is another rationale for adopting a better regulated and more social approach.

Each type of economy and level of development face their own choices and horizons. As newly industrializing societies seek to develop the service sector, including research and development, design and finance, it involves different skills, cultural horizons and priorities than the earlier phase of industrialization. Thus, knowledge and cultural skills such as English become crucial in emerging societies.

Different kinds of development relationships prevail in NIES, in cooperation between NIES, between NIES and commodity-exporting countries, and in South-North relations. The transitions taking place at different levels together form the horizon of contemporary development. Heeding the transitions that each developing society, at different levels of development, seeks to undertake is essential to understanding global development. Global development also carries another meaning, in the words of Björn Hettne, “an improvement in the quality of international relations” (2008: 23-4), and the two are probably related.

A major focus of attention is the relations between NIES and commodities-exporting countries. China, India and other Asian countries have shown growing interest in investing in Africa and Latin America. For the first time in decades sub-Saharan African countries are recognized as major frontiers of business, also by private equity investors. The 2007 World Bank Report on African Development Indicators notes, “For the first time in three decades African economies are growing with the rest of the world”. By some assessments Africa is the “emerging market”:

“With the global credit crunch (...) capital is looking for new places to grow (...) also to ‘emerging emerging’ markets in Africa (...) government debt issues in Nigeria and Ghana in 2007 were seven times oversubscribed.”<sup>14</sup>

According to another report Africa “is at the heart of the latest surge of enthusiasm to hit emerging markets”. Private capital flows have tripled since 2003 (at \$ 45 billion in 2006). Factors in this change are the commodities boom, debt relief and improvements in economic policy.<sup>15</sup> A growing debate concerns the role of China and India in Africa (Shaw et al. 2007; Kaplinsky and Messner 2008). In China a budding debate concerns the question of how can we develop in a way that is not at the expense of poorer countries?<sup>16</sup>

The challenge facing commodity-exporting countries is to convert their export gains into human capital and sustainable development paths. Commodities booms

don't last. The 2008 slump has already brought prices down. This is a challenge also for BRIC societies. Observers note,

"The fundamental difference between China and India on the one hand and Russia and Brazil on the other is that the former are competing with the west for 'intellectual capital' by seeking to build top-notch universities, investing in high, value-added and technologically intensive industries and utilizing successful diasporas to generate entrepreneurial activity in the mother country. Russia and Brazil are benefitting from high commodity prices but are not attempting to invest their wind-fall in long-term economic development."<sup>17</sup>

Thus, a challenge for commodities-exporting economies is to cross the thresholds of industry and services.

How are the overall trends holding up in the wake of the 2008 financial and economic crisis? As mentioned before, commodity prices have come down. With petrol prices coming down as well, this is a mixed message for developing countries. The first major test of the decoupling thesis shows that Asia and other emerging markets are not able to take up the slack, especially if the slowdown affects not just the US but Europe as well. The IMF has made a comeback but does so with a different script – a tad more self-reflexive, less confident about its general prescriptions, and refraining from economic micromanagement. The IMF's capital base has eroded during the past few years, and if it is to be able to play its role amid financial turmoil (note for instance that outstanding hedge funds' capital amounts to \$ 71 trillion), its capital base should be extended and include significant participation by sovereign wealth funds in emerging economies. This is possible only on the basis of financial power-sharing with emerging economies, which, in turn, augurs the passage of the Washington era. Thus, although the short-term picture has changed, medium- and long-term trends have not.<sup>18</sup>

## 2.4 INTERNATIONAL DEVELOPMENT COOPERATION

What do 21<sup>st</sup>-century trends bode for international development cooperation? One option is growing awareness of the limited status of development cooperation. The development industry is not as important as it thinks; rather, its sense of self-importance is part of the problem in that it implies the tacit assumption that developed societies are the torchbearers of development. But note, for instance, that remittances of migrants to their home countries at \$ 150 billion in formal flows and another \$ 150 billion in informal flows a year (2007) far exceed the total disbursements in foreign aid. It follows that supporting policies that ease transnational migration and recognise its developmental contributions may make a more substantial contribution to international development than most foreign aid.

A core dilemma of development cooperation is, to put it bluntly, how to balance power and emancipation, or how to sustain advanced countries' privileges while endorsing or promoting social justice. This, after all, was the gist of the Washington consensus: financial and economic management in the interest of the US and the West, rather than of the world majority.<sup>19</sup> Hence, for development cooperation to achieve policy coherence is not a minor task. Macroeconomics is usually out of synch with development cooperation; development cooperation comes as a benevolent afterthought, which at times is best left to celebrities. The discourse of development cooperation has often been coined in normative and ethical terms. In the introduction to a 1997 White Paper, *Eliminating World Poverty: A Challenge for the 21<sup>st</sup> Century*, the British minister for international development states: "we have a moral duty to reach out to the poor and needy". Introducing a follow-up White Paper in 2000, Tony Blair defines the elimination of world poverty as the "greatest moral challenge facing our generation".<sup>20</sup>

What is troubling about this position is that it is a short step to compartmentalization. "We should" doesn't mean "we will", and the gap between ought and shall is a given. For instance, the old adage is "trade, not aid". But in the WTO industrialized countries have insisted on trade rules that privilege their producers and intellectual property policies that shield their corporations. Does it make sense to pursue the "free market" with one hand and do damage control with the other? Viewing macroeconomics in a different window than development cooperation produces policy schizophrenia: on the one hand, follow the Washington institutions and, on the other, promote projects and programs that counterbalance the effects of structural reforms. A two steps backward, one forward, or sideways, kind of policy. While macroeconomics reflects Wall Street-Treasury-IMF clichés, in its margins development cooperation builds on slogans (good governance, civil society, participation, etc.) that now seem tired and compromised. The surfeit of moral exhortation may serve to paper over policy schizophrenia and the realities of what Petras and Veltmeyer call "reverse aid" (2002), referring to all the ways in which foreign aid greases the wheels of elites and corruption. I'm sidestepping here the tired discussions of "foreign aid" because compartmentalization doesn't make sense, and it doesn't make sense to discuss aid separately from macroeconomics.<sup>21</sup>

Crisis is also opportunity, including the opportunity of bringing back economics as if people matter. This may involve three moments – a global we, rebalancing globalization, and social innovations. The deeper challenge is to envision a global 'we' and thus a future that welcomes the world majority and the world's poor. This would imply fundamentally different takes on globalization and development. It is sobering but wise to recognize that this is probably a bridge too far; hence, it is appropriate to lower the volume of moral exhortation and to turn to the 'how' of a constructive approach.

According to Stiglitz, what it takes to “make globalization work” is a different balance of state, market and society (2006). The previous balance was market-led, and many states followed market preferences. Were globalization market-led, the world would be headed in the same general direction as Enron, New Orleans and Lehmann Brothers. A new balance is in the making, with a greater role of emerging societies, and smart development cooperation can ease its path. The role of international development cooperation is to assist developing country states and social organizations and movements to see to the quality of growth, i.e. on the optimistic assumption that international development cooperation agents would be able to do so. This involves viewing development cooperation not as a tool of status quo backup and paradigm maintenance but as a tool in the making of a new balance, a tool for progressive change on a global scale. Obviously this is not an easy proposition for there is no consensus on progress, on what is ‘progressive’ and whether being progressive is desirable.

Some advantage may be gained from building development cooperation not around slogans or vague ethical principles but around innovations, whether engineering or social, hardware or software innovations; innovations such as cash-for-trash, mobile phones, rural internet kiosks, new migrant mobility. This may avoid development cooperation getting bogged down in interminable debates on general political economy. Global social policy and a political economy of global social democracy may be desirable but are unlikely to generate a consensus. A global mixed economy approach with many different entrées and exits may be more feasible.

## NOTES

- 1 Willem Buiter's blog, *Financial Times*, September 18, 2008. Headline, *Financial Times*, September 29, 2008. J. Authers, *Financial Times*, September 21, 2008: 18.
- 2 On American hegemony see Nederveen Pieterse 2004, 2008a; on 21<sup>st</sup> century globalization see Nederveen Pieterse 2008b.
- 3 "The US' share of global GDP fell to 27.7 per cent in 2006 from 31 per cent in 2000 (...) the share of the BRICs rose to 11 per cent from 7.8%. China alone accounts for 5.4 per cent (...) the US continues to play an anchoring, even dominant, role in global financial services, thanks to its deep markets and strong banking systems (...) in 2007 the BRICs' contribution to global growth was slightly greater than that of the US for the first time. In 2007 (...) US will account for 20 per cent of global growth, compared with about 30 per cent for the BRICs." D. Gross, 'The US is losing market share, so what?' *New York Times*, January 28, 2007: BU5.
- 4 Ph. Stephens, *Financial Times*, March 3, 2006: 13.
- 5 J. O'Neill, *Financial Times*, September 23, 2008: 28.
- 6 'Poll reveals backlash in wealthy countries against globalization', *Financial Times*, July 23, 2007: 1.
- 7 Candidates in the 2008 American presidential election attacked 'unfair' trade deals – Obama attacks Nafta, Cafta and the Clinton administration's establishing regular trade relations with China. According to Hillary Clinton, "When I'm president, China will be a trade partner, not a trade master" (*New York Times*, April 6, 2008).
- 8 Hans van Willenswaard 2008 and personal communication. I have argued for critical holism and world development as overarching themes (Nederveen Pieterse 2001).
- 9 J. Authers, *Financial Times*, September 21, 2008: 18.
- 10 See Albert 1993, Dore 2000, Nederveen Pieterse 2004.
- 11 See e.g. Gittings 2005, Guthrie 2006, Rodrik 2000. On the developmental state, see Chang 2002, 2003, Chang and Grabel 2004.
- 12 See Krishna and Nederveen Pieterse 2008; Nederveen Pieterse and Rehbein 2009; Thornton and Thornton 2006.
- 13 For more developed perspectives on human development see Mkandawire 2004 and Nederveen Pieterse 2001, Ch. 9.
- 14 A. Mitchell, 'The emerging emerging market', *Wall Street Journal*, October 23, 2007: 13.
- 15 A. Russell, 'Growth data fuel hopes of new business era in Africa', *Financial Times*, November 15, 2007. J. Chung, 'Investors dive into the heart of Africa's markets', *Financial Times*, November 19, 2007: 19.
- 16 Personal communication with colleagues at the Chinese Academy of Social Sciences.
- 17 J. Lloyd and A. Turkeltaub, 'India and China are the only real Bricks in the wall', *Financial Times*, December 4, 2006: 13.

- 18 See ongoing discussions in business media, too many to refer to; note e.g. Hutton 2008.
- 19 As George Soros comments, “The global financial system as it is currently constituted is characterized by a pernicious asymmetry. The financial authorities of the developed countries are in charge and will do whatever it takes to prevent the system from collapsing. They are, however, less concerned with the fate of countries at the periphery. (...) This asymmetry explains why the US has been able to run up an ever-increasing current account deficit over the past quarter of a century. The so-called Washington consensus imposed strict market discipline on other countries but the US was exempt from it.” (‘America must lead a rescue of emerging economies’, *Financial Times*, October 29, 2008: 11.) Cf. Soros 2008.
- 20 Quoted in Slater and Bell who add, “This strong sense of moral duty was closely linked to the prioritization of human rights and a more ethical foreign policy” (2002: 342).
- 21 On foreign aid, see e.g. discussions in *Development and Change*, 33, 2, 2002 and 34, 3, 2003.

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### 3 DOES FOREIGN AID WORK?

*Roger C. Riddell*

#### 3.1 INTRODUCTION

Foreign aid has been provided for more than 60 years. During this time, the number of aid donors and the overall amounts of aid given have steadily increased, notwithstanding short-term fluctuations in the total, and today aid comprises a multi-billion dollar 'business'. The start of the 1990s witnessed a sharp downturn in aid volumes, and the accompanying discourse raised questions about aid's very survival in the post-Cold War era. However, as had happened in earlier periods of downturn, there was not only an aid revival, the first decade of the 21<sup>st</sup> century remains on track to be the period of the most rapid expansion of aid ever, notwithstanding a brief downturn in 2006 and 2007.<sup>1</sup> Today, the international aid system is a recognized part of the global international relations system, employing hundreds of thousands of people. It is perceived as playing a crucial role in the efforts by the international community to achieve the Millennium Development Goals (MDGs) to which all member states of the UN remain committed.

In spite of these developments, for most of its history foreign aid has encountered opposition, and its assumed beneficence – notably for those receiving it – has been challenged. Vigorous criticisms of aid's supposed benefits have come from those on the extremes of the political 'left' and 'right', from which criticism was driven less by perceptions and analyses of aid's immediate failures and based more on the belief that it *did* achieve its broader and longer-term objectives. It was these objectives which were the main focus of criticism. For the political 'left', aid was criticized because it was perceived to be a (successful) tool in expanding market forces into the developing world, an effective weapon in advancing imperialist aims and relationships (Hayter 1971). For the political 'right', development aid was criticized because it was assessed as (successfully) impeding the more rapid development and expansion of markets and market forces, and because it formed part of a system which encouraged the state to intervene directly in the development process, a process perceived as causing slower growth rates and development processes than assumed to arise without aid and linked interventionist strategists (Bauer 1971, 1984). From these perspectives, the problem with aid was not that it didn't work – but precisely that it did!

Increasingly over the past 30 years up to the present, controversy surrounding the merits of providing and receiving aid have shifted away from ideological debate to focus more on its direct impact: whether it works or not.<sup>2</sup> It is easy to see why this question has become so central to the discourse about aid, especially within donor

countries. If aid can be shown to result directly in or to contribute indirectly, but clearly, to tangible and identifiable benefits for those receiving it, then – it is widely assumed – this provides sufficient justification for providing it, and continuing to provide more of it. The more ‘needy’ the recipients and the larger and more sustainable the benefits, the firmer the basis for giving more aid. If, on the other hand, no direct or clearly identifiable indirect benefits from providing it are evident, then – it is argued and widely assumed – the case for providing aid falls away.

Against this backdrop, one of the main purposes of this chapter is to present an overview of the evidence of aid’s impact: to provide a succinct summary of what we know about the impact of aid, as well as to help answer the – crucial and linked – question of whether the available evidence is sufficiently robust to be able to answer the question adequately: does foreign aid work? As will become clear, in a number of ways the evidence is inadequate to answer some of the most central questions about aid effectiveness. The chapter then goes on to highlight some of the key factors which currently impede and severely reduce the potential impact that aid could have, focusing mostly on those factors which donors, in particular, have the capacity to address; this section of the chapter ends with some thoughts on the prospects of such changes occurring. The final section of the chapter provides a brief discussion of the wider context in which debates about aid’s impact need to be situated and concludes by asking whether the question “does foreign aid work?” ought to continue to be such a central focus of attention in contemporary discourse about aid. But to begin the discussion, it is first necessary to spend a moment clarifying what precisely we mean by the term ‘foreign aid’ and to delve a little more deeply into the question “does foreign aid work?” so as to be clear precisely what question it is we are seeking to answer when searching for evidence of the impact of aid.<sup>3</sup>

### 3.2 WHAT AID ARE WE TALKING ABOUT?

What precisely is aid? At its most general, aid consists of the transfer of all resources by donors to recipients, regardless of its purpose or of the status and need of the recipient, and thus could include assistance provided for political, military and strategic purposes, and that given to recipients who are neither poor nor needy. However, by convention, discourse about aid has tended to focus primarily and principally on assistance from richer to poorer countries whose purpose is to address and promote the welfare and development of the latter.<sup>4</sup> Yet even within this narrower context, there are many different terms deployed in the discussion of aid or foreign aid: ‘development aid’, ‘development assistance’, ‘emergency aid’, ‘humanitarian aid’, ‘official aid’, ‘voluntary aid’ and ‘official development assistance’. Sometimes these terms are used loosely, sometimes they are used more technically to denote particular types of aid, around which a precise definition has been agreed.

Definitional questions are important for two reasons: firstly, because professionals and the public often think and talk about quite different aspects of aid when they use the word aid and secondly, because recent decades have seen major shifts in the rate of growth of different sorts of aid, resulting in major changes in the overall and relative importance of different types of aid.

Public interest in and attention to aid issues has historically been focused predominantly on the immediate response to emergencies – providing emergency assistance to the victims of earthquakes, floods, tsunamis, droughts, wars and civil unrest, “before it is too late”. The aid provided in response to both natural and ‘man-made’ disasters is known more technically as *humanitarian aid*. Historically, humanitarian aid has been provided predominantly by voluntary agencies, non-governmental organizations (NGOs) and church- and faith-based agencies such as Oxfam, Novib, and Cordaid, and by the different organs, societies and agencies of the Red Cross, including the International Committee of the Red Cross, with aid funds originating from both voluntary (public) donations and governments.

In sharp contrast, the discourse about aid in the aid literature is focused predominantly not merely on *development aid* – aid provided in non-emergency contexts and for non-emergency purposes – but on that part of development aid provided in the form of public (taxpayers’) money, known more technically as Official Development Assistance, or ODA – given directly by governments, often through their own agencies to recipient countries (bilateral aid), or indirectly through international development banks and aid agencies and through different United Nations bodies (multilateral aid). In the aid literature, the question “does aid work?” has historically always meant “does that part of total ODA used for development purposes achieve its development objectives”. As defined by the OECD, ODA explicitly excludes both aid raised by the public and faith-based groups to fund the emergency and development work of the Red Cross, NGOs and church-based agencies, and aid funds provided by private sector firms and foundations, such as the Bill and Melinda Gates Foundation.

The importance of different sorts of aid – especially the relative importance of development and humanitarian aid – and the importance of different types of aid donors – official (government donors), voluntary sector (Red Cross and NGOs) and private sector – should help determine what should be the focus of attention when we ask “does aid work?” The problem is that there are no accurate data collected of all aid and thus there are no accurate data of the relative importance of different sorts of aid and of different groups of donors. However, we do have some ‘best guess’ estimates which can certainly help us to understand both the importance of different types of aid provided by different types of donors and how these have changed over time.

- Historically, and in sharp contrast to widely shared public perceptions, the vast majority of aid has been provided for development and not for emergency purposes. Thirty years ago, humanitarian aid accounted for considerably less than 10 per cent of all aid, and probably less than 5 per cent of all aid. What is more, this is consistent with the estimates of deaths attributable on the one hand to emergencies and, on the other, to poverty and diseases of poverty. For example, in the ten years to 2004, an average of 900,000 people died as a result of emergencies, less than 100,000 a year. Some emergencies have witnessed far higher death rates, with the Asian Tsunami probably resulting in some 250,000 deaths. However, it is estimated that each year, some 18 million people die from poverty and poverty-related diseases, suggesting that for every person dying as a result of a disaster or emergency, 200 people die directly or indirectly as a result of poverty.
- Likewise, some 30 years ago, the vast majority of development aid was provided as ODA, with NGOs and the private sector contributing little (almost certainly less than 10 per cent) of total aid.
- In the intervening period, however, significant changes have occurred. In the 30 years to 2005, in real terms, ODA increased two and half times, whereas there was a 17-fold increase in humanitarian aid. In the same period, there was also a rapid expansion in the resources NGOs were able to raise and use to fund a range of different aid projects and programmes. The biggest NGOs and NGO consortia, such as Cooperative for Assistance and Relief Everywhere (CARE), Caritas, Act Development and Oxfam, have budgets in excess of \$ 500 mn and oversee aid portfolios larger and more complex than those managed by most official bilateral donors. Additionally, the last 10 to 15 years have seen the rise of large private foundations, such as the Bill and Melinda Gates, Clinton, Google and Buffet foundations, funnelling annually well over \$ 5 bn a year into a range of development projects, many in low-income countries.<sup>5</sup> The result is that today the combined total of all NGO and humanitarian aid (and there is overlap between the two) accounts for some 30 per cent of all ODA, and when the funds of the private foundations are added, total official aid – or ODA – probably accounts for less than two-thirds of all aid, official and non-official.
- Another change which has occurred is that the historical distinction between development and emergency, or humanitarian, aid is not nearly as clear-cut as is commonly thought. Today, some development aid project expenditures – providing antiretroviral drugs to those with AIDS or bed-nets to those living in high-risk malarial areas – are primarily concerned with saving lives, while *most* emergency aid project expenditures focus on reconstruction and rebuilding livelihoods many months and even years after an emergency has struck, and not on saving lives or keeping people alive in the immediate aftermath of a disaster. Indeed, most lives at risk immediately after a disaster strikes are ‘saved’ by assistance provided from local communities and not by the millions of dollars deployed by international aid agencies.

What this suggests is that whereas a decade or two ago, it would have been adequate to try to answer the question “does aid work?” by focusing attention on the impact of official aid (ODA) aimed at accelerating growth, development and poverty alleviation, this is no longer the case today. Increasingly, trying to answer the question “does aid work?” requires an answer not only to whether official aid (ODA) “works” but also to whether humanitarian aid and aid provided by NGOs, civil society organizations (CSOs) and private foundations also ‘works’. Neither contemporary discourse about aid impact nor the data most readily available have caught up with these changes in the ways that the whole aid system currently functions.

### 3.3 CHALLENGES IN TRYING TO ASSESS THE IMPACT OF AID

#### INPUTS, OUTPUTS AND OUTCOMES

Asking whether aid works is a beguilingly simple question. Answering the question is far from simple. How does one go about assessing and judging the impact of aid? This section highlights some of the key challenges involved.

The first problem is that aid is provided in many different forms to achieve a variety of different purposes. At its simplest, aid is provided in the form of different, discrete projects with recognisable and explicit short-term objectives – such as to build classrooms, clinics or roads, provide basic drugs, or train teachers or nurses. In such cases, asking whether aid has worked involves finding out if these short-term objectives were fulfilled. Were the classrooms, clinics and roads built, teacher and nurses trained and basic drugs provided? But this tells us very little. We are likely to want to know not merely whether the aid promised was ‘delivered’ but, for example, whether these items or skills were among those most urgently needed, whether they were provided to a sufficiently high standard and in a cost-effective way. Assessing these dimensions of impact is more difficult as it requires undertaking qualitative assessments, not merely totting up the number of classrooms built or drugs distributed. Similar problems occur when the aid provided is itself aiming to achieve qualitative outcomes, such as strengthening institutions, building capacities and improving the quality of education and health services.

For most people today, however, the critical test of aid’s impact and effectiveness lies far less in knowing whether the aid provided has been able to achieve its more immediate short-term objectives but whether it has contributed to sustainable improvements in people’s lives – not so much whether classrooms have been built, or even whether the quality of education has improved, but the difference this has made to (poor) people’s well-being. In short, are people less poor as a result of the aid provided, are economies developing faster and sustainably, providing more long-term productive employment opportunities for more

people? Ultimately, is the aid provided making a tangible difference to the final goal of enabling poor countries to be able to prosper and develop without aid? To put this into more technical language, people are less interested in the relationship between aid (inputs) and the immediate *outputs* produced, and far more interested in the relationship between aid inputs and broader *outcomes*, particularly the relationship between aid and poverty.

Assessing the impact of aid, especially the relationship between aid and broader outcomes, faces three particular challenges: data problems, attribution problems and the difficulty of finding a reliable counterfactual. We shall consider each of these in turn.

### THE CHALLENGE OF POOR DATA

Data problems can be illustrated in relation to monitoring changes in poverty. To assess the relationship between aid and poverty, it is necessary to have robust data on both aid inputs and poverty trends. However, for the majority of the poorest countries the lack of data means that it is not possible to monitor changes accurately in many key development outcomes on an annual basis or, in some cases, over even longer periods of, say, four to five years. For instance, World Bank statistics on the number of people in the world living on less than \$ 1 or \$ 2 a day are based on information from only 79 countries; 62 per cent of people in sub-Saharan Africa live in countries that in 2003 had not conducted a poverty survey for the past five years (World Bank 2003: 107). According to the United Nations, for over 65 countries (mostly the poorest) there are no data on the numbers of people living in poverty; for almost 100 countries, there are no data which record changes in poverty over time; and for 115 countries, there are no data collected which monitor changes in child malnutrition (as recorded by weight), a key indicator of poverty (UNDP 2005: 336).

Data problems also relate to the accuracy of aid data. The most widely cited and used data on aid inflows into recipient countries come from the OECD. However, as discussed above, these only record official aid flows and not the amount of aid (ODA) recipient countries receive, but the amounts individual donors allocate to different recipient countries, regardless of whether the recipient country receives and is able to use these funds. Comparing the aggregate aid for particular countries compiled by the recipient (and thus recording aid funds received) with those compiled by the OECD (recording funds donors choose to allocate to this country) can show variations of 15 to 20 per cent or higher, running into hundreds of millions of dollars.<sup>6</sup> While proxy (usually quantitative) indicators are widely used as the basis for making comparisons, it needs to be acknowledged (but is often forgotten) that these are what their name suggests – proxy indicators and not accurate measures.

### ATTRIBUTION PROBLEMS

The second challenge in trying to assess the impact of aid involves the difficulties in being able to accurately trace the precise relationship between the aid provided and the outputs and outcomes achieved. This relates to what is termed the attribution problem. Even if we were to know accurately the amount of aid provided and the development outcomes achieved over a particular period of time (see above), this does not necessarily tell us anything about the *causal relationship* between the two. It is more difficult to trace the degree to which aid contributes to development outcomes the smaller the amount of aid provided, the larger and more distant the outcome achieved and the greater the number of factors which influence the development outcomes.

The problem is that aid is only one of many factors or inputs which influence development outcomes. Aid may well influence growth rates and development, but so too do a host of other factors such as the price of oil, demand for a country's leading exports, the rate of inflation, the tax regime, the state of a country's infrastructure, the changing perception of investors and potential foreign investors, the weather, and what happens in adjacent countries. For all developing countries, ODA accounts for less than 1 per cent of total gross domestic product (GDP) and for the least developed countries (50), only 9.3 per cent on average (UNDP, 2007: 293). It is by no means easy to isolate the (positive) contribution that aid makes to growth and poverty, and it may well happen that the effects of aid are swamped by the (negative) effects of other factors influencing growth and development. Likewise, if poverty falls over a defined period, the major cause could well be the influence of factors other than aid. Donors and recipients alike are often all too ready to attribute reductions in poverty and rises in growth rates to their own efforts and to blame 'external factors' when poverty increases or growth rates slow.

### THE PROBLEM OF THE COUNTERFACTUAL

The third challenge in assessing aid lies in being able to compare what happens with aid with what would have happened without aid, either by examining the situation before and after aid was provided, or by comparing one context, community or country where aid was provided with a similar one where aid was not provided – in more technical terms finding a reliable *counterfactual* against which to assess the difference that aid makes. For many people, this constitutes the key test of the benefit of aid. Indeed, for the World Bank, impact evaluation is defined as “the counterfactual analysis of an intervention on final welfare outcomes” (World Bank 2005a: 2). What is critical is to assess the *additional* benefits that aid brings. For example, it is all well and good, they argue, to point to the benefits that the provision of micro-credit aid projects brings to a community – raising income levels and improving livelihoods – but if those receiving subsi-

dized loans would have borrowed money anyway, then the additional benefits of the aid would be considerably less than suggested by solely analyzing the absolute rise in incomes.

### 3.4 DOES AID WORK? THE EVIDENCE

#### OFFICIAL DEVELOPMENT AID PROJECTS

Historically, most aid impact evaluation work has focused on the evaluation of discrete projects. This is not surprising, as even today – for all the talk about providing aid in new and different forms – most aid is still provided in project form.<sup>7</sup>

The good news is not only that the evidence of the impact of project aid tends to be quite consistent between and across different (official) donor agencies, but that it reveals a high – and steadily increasing – rate of success. Most aid-funded projects continue to fill gaps in poor countries, the majority of which either would not be met or would be met far less adequately without aid. Roads are constructed and maintained, schools, hospitals, clean water and sewage plants are built, medicines and school books are supplied, the terracing of land to protect soil erosion takes place, credit agency personnel are given the necessary skills and credit is provided, teachers are trained, computer systems are installed and function, and telecommunications equipment is installed and rehabilitated. People receive the skills specified, plans for local councils are drawn up as expected, magistrates complete training courses, election monitors are trained. The scale, range and extent of the cumulative successes of aid projects, in terms of what they have produced and delivered, are difficult to convey fully.

Against the backdrop of significant strands of public scepticism about the benefits of aid, the aggregate evidence of much project aid tells a very different story. Cumulatively over time, hundreds of thousands of project completion reports have been written which record the results achieved. Though not all agencies publish aggregate reports on their results, the larger agencies do, and it is likely that these broadly reflect the performance of all official aid projects. These studies – from multilateral agencies, such as the World Bank, the Asian Development Bank, the African Development Bank and the United Nations Development Programme (UNDP), and from bilateral agencies such as the United Kingdom and Australia – show that the vast majority of aid projects work: especially where the intended outputs are clearly specified (the majority of cases), most projects succeed in producing or delivering their intended outputs.

The proportion of projects which achieve their immediate objectives (probably the most common way of judging success) varies between donor and recipient country, but success rates recorded range from around 70 per cent to about 85 per cent,



with most donors recording success rates in excess of 75 per cent for their projects. Furthermore, the reported rate of success of projects across the leading agencies has improved over time: more and more aid projects are succeeding in meeting their immediate objectives than in the past, notwithstanding data from some agencies, including the World Bank and the Asian Development Bank, for the period from the mid-1970s to the mid-1980s, when the success rate of projects deteriorated.<sup>8</sup>

There have also been failures, however. Overall, donor data suggest that between 10 and 25 per cent of projects have failed to meet their immediate objectives or have had extremely limited success, or else the data on the projects have been so poor that it has not been possible to form a judgement on project performance. Transport projects have been less successful, as have aid projects implemented in particular regions or countries, notably within sub-Saharan Africa. Dramatic and outright project failures, where there is nothing positive to show for the aid provided, are probably quite rare, certainly rarer than in the past. However, there are definitely cases of failure, and in aggregate, they involve significant sums of money, almost certainly amounting to many hundreds of millions of dollars a year. Likewise, there are cases (though too few are documented) of project money and resources 'going astray', being channeled into uses other than those intended, including into people's pockets, as well as cases of aid contractors inflating prices to reap unwarranted profits. Donor project completion reports and evaluations increasingly record project failures, though they don't record the diversion of funds through corrupt practices, and a growing number of these are to be found on the websites of donor agencies and official auditors, even if they are often 'hidden' in the more technical evaluation report pages of such sites. To this day, donors remain reluctant to take the initiative in publicizing and discussing their aid failures in public fora.

Can these project evaluations and completion reports be trusted? Aid project evaluations have been criticized in three ways. The first two criticisms concern their reliability and whether the conclusions drawn provide a reliable account of what has happened.

Firstly, most evaluations have been conducted by or managed and overseen by the agencies themselves, leading to the criticism that the results are biased in favour of the agency concerned, exaggerating the rate of success. There is some evidence to suggest that this has occurred.<sup>9</sup> However, though at times significant, the upward biases that have been discovered have not made a major difference to the broad overall results reported. Most large official agencies have begun to move in the direction of creating independent evaluation units, more able to commission and publish reports of what outsiders judge the impact to be, even if the gap between what happens and what is desirable could still be narrowed.<sup>10</sup> Likewise, project

success rates tend to fall markedly when they are placed within a longer time-frame. Consistently, both donor data and independent evaluations report far lower levels of project success when the time period is extended: the positive impact of a significant number of projects cannot be sustained. The good news is that most evidence suggests that a rising proportion of projects are achieving positive scores in relation to their sustainability. The bad news is that the numbers of projects that are not sustainable still remain stubbornly high.

The second criticism of project impact assessments has come from those who have argued that traditional project evaluations have not been sufficiently rigorous to address attribution and counterfactual problems. Most aid assessments, it is argued, have not been able to pinpoint with sufficient accuracy the causal relationship between the output achieved and the aid provided or to show to communities the difference which the aid provided has made, in comparison with their not having received the aid.

In cases where there are few factors influencing (tangible) outputs other than aid, or where the aid input is dominant, these theoretical criticisms of 'traditional' project aid assessment are less forceful. However, in cases in which the relationship between aid inputs and outputs is less clear-cut and where donors face a range of choices about where to deploy their aid most effectively, whether to health, education, wealth creation or any other sector, and need information about which project might make a greater difference to more people, then many 'traditional' project evaluations will often not provide the wider data and information they require to make informed choices about how best to deploy their aid. Particularly in these instances, more sophisticated and rigorous impact evaluations and randomized evaluations have been undertaken in recent years.<sup>11</sup> These have proved valuable in gathering a richer source of data and information, in understanding better the causal relationships between aid inputs and outputs, in assessing better the impact of aid on improved living standards, and in contrasting the situation with and without aid. However, these evaluations are more time-intensive and expensive to mount than traditional project evaluations. What is more, their use is far more limited than might be expected. In particular, randomized impact evaluations are not suitable for a wide range of activities that development agencies are engaged in, including national programmes, policy advice, technical assistance, and institutional development, or direct budget support.

The third and probably the most important problem with the evaluation of discrete projects is that most have focused on the relationship between aid and outputs and not on the relationship between aid and the ultimate development outcomes that aid aims to achieve, such as a rise in living standards, better and more sustainable livelihoods, and a reduction in poverty. Today, the most critical questions to which donors and the general public seek answers are what contribu-

tion aid makes to the achievement of the MDGs, to poverty reduction, to sustainable growth, and to contributing to specific goals such as achieving universal primary education, reducing under-five mortality and reversing the spread of HIV/AIDS and malaria. The assessment of the impact of discrete stand-alone aid projects has not been able to answer these questions adequately.<sup>12</sup>

#### **OFFICIAL DEVELOPMENT AID AT THE SECTORAL LEVEL AND FOR BUDGET SUPPORT**

Though by no means as numerous as project evaluations, donors have been concerned with assessing and have tried to evaluate the wider impact of their aid almost since aid assessments were first carried out. Predominantly, however, these assessments have been donor-specific – each donor focusing on the impact of its own aid – rather than all aid – at the sectoral and country level. The vast majority of these studies have shared two linked conclusions. The first was that rigorous assessment was severely hampered by the paucity of data upon which to draw firm conclusions. The second was that even if the quality of the data – particularly of the amounts of aid provided and changes in the number of people living in poverty – improved, it would still be extremely difficult to draw firm conclusions about the specific contribution that the aid made to aggregate outcomes because of the difficulty of identifying the range, strength and importance of the factors other than aid which also influence such outcomes.

In recent years, donors have undertaken or commissioned studies to examine the impact of programme rather than project aid, notably aid funds pooled together to add to the total funds available to the finance ministry to fund the budget (called general budget support) or aid channeled to a particular sector, such as health and education, to help achieve sectoral priorities, such as the provision of primary health care facilities or universal primary education under Sector-Wide Approaches, or SWaps – building on earlier assessments that have tried to measure the impact of aid at the sectoral level. The conclusions of these more recent studies have not been markedly different from those of earlier studies: because of the difficulties of tracing the relationship between the programme aid provided through SWaps and its wider impact, there is a reluctance to make sweeping generalizations about their impact.

Where judgements have been made, the evidence of performance and impact has tended to be mixed. In a review of evaluations conducted using a range of different approaches, Jones (2000) judged that, overall, SWaps have been disappointing, but that against this backdrop, health, education and road sector development had been amongst the best performing, with successes recorded in Ethiopia, Ghana, Mozambique, Uganda and Zambia, confirming the results of earlier sectoral evaluations (Riddell 2008: 195–211). A detailed study of the Uganda education SWAP

records attributes to the SWAp a succession of tangible advances, especially the quantitative expansion of primary education (Eilor 2004). For their part, Foster and Mackintosh-Walker (2001) confirm that many SWaps have directly, and sometimes indirectly, stimulated an expansion of overall sectoral funding, but that there is a mixed picture in terms of direct benefits to the poor, with some of the benefits accruing to poor people attributable to other influences beyond the SWAp. A major multi-donor study reviewed the progress and contributions of donors to basic education, focusing explicitly on achieving the goal of education for all (Freeman and Faure 2003). It affirmed that external support has helped to expand access to basic education. However, it drew attention to a substantial gap between aid needs and aid resources being allocated, and expressed concerns about whether and for how long external funding to education would be continued, raising doubts about whether the advances made would be sustained. The overall conclusion is overwhelmingly that aid for basic education has helped and has been effective.

Perhaps the key message of the review of these assessments is that the expected benefits of SWaps lie beyond the form in which the aid is given, making it even more difficult to measure such outcomes. This is because the effective implementation of sector strategies is dependent on a commitment and national consensus to use the resources well and the capacity to plan, implement and monitor the deployment of resources, and to learn from successes and failures. If aid is provided to part-fund SWaps in a supportive environment, in sufficient quantities and with funds committed over time, assessments suggest that the impact has tended to be positive. In contrast, if aid is provided to a SWAp in small and fluctuating amounts, by donors who differ among themselves and with the recipient government about how to use the funds, against the backdrop of a sectoral ministry which has limited capacity, and a fluctuating commitment to use the funds well, it is going to be a huge challenge to assess the impact of the SWAp.

Over the past ten years, there has been a revival of donor interest in and the provision of aid for budget support, especially general budget support (GBS), in which (un-earmarked) aid is provided to the government to boost state expenditures. Only a few studies of the impact of GBS have been undertaken, the most important being a three-year study commissioned by a consortium of donors in 2003 and completed in 2006 (IDD and Associates 2006). This involved the development of rigorous methodologies to assess and evaluate GBS, followed by substantive case studies in seven countries: Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda and Vietnam. Though the evaluation cautions against generalizing from its findings, it does comment on different aspects of the impact of GBS.

In terms of poverty impact, the evaluation makes four initial points. The first is that the data are not sufficiently accurate to enable firm conclusions to be drawn. The second is that even if the data were better, it would still be exceedingly diffi-

cult to trace the causal links between the provision of aid in the form of GBS and changes in the poverty status of poor people, especially their income levels. Yet, third, it argues that there has been a marked expansion in the provision of key services in most countries which have been due, in large measure, to the additional aid provided, though in some countries at the cost of sharp falls in the quality of those services (p. 69). However, fourth, in terms of enhanced services and service delivery, it notes significant differences across the different countries: improvements in Burkina Faso and Uganda that were probably linked to GBS, improvements in Rwanda, the cause of which was difficult to discern; improvements in Vietnam not directly due to the additional aid provided under GBS; and no marked difference discerned in Malawi or Nicaragua (pp. 71-72). Overall, its judgement was that of the seven country case studies, GBS had been successful in five, with the overall impact in Nicaragua and Malawi unclear (p. S3). Ultimately, however, it noted that the impact and effectiveness of GBS rely less on what the donors do and more on what happens at the recipient end. One of the factors driving the move away from project aid was to try to reduce (sharply) the costs of providing project aid. Most evidence to date suggests, however, that this has not (yet) happened. For both donors and recipients, transaction costs seem to have risen, not fallen.

#### **OFFICIAL AID AT THE COUNTRY LEVEL**

The assessment of aid at the sectoral level still only provides a partial answer to the question of whether aid ‘works’. For most people, the crucial question is whether aid works at the country level – what is the impact of all the aid provided to a particular aid-recipient country?

Despite that fact that donors have been examining the impact of aid at the country level for some time – over 100 country evaluations were conducted in the five years to 1999 (OECD 1999) – their focus has predominantly been on the aid each has individually provided, and not on all aid. In the past five years, a number of OECD donors have conducted joint evaluations, which have taken the first steps in trying to assess the impact of aid beyond the confines of a single donor’s aid programme. A review of these efforts, though focusing mostly on process issues, confirmed the difficulties in trying to assess the wider impact of aid provided by different donors, especially when approaches, aims and objectives differ sharply (OECD 2005b). Surprisingly, however, no studies of the overall impact of all aid to particular countries have ever been undertaken jointly either by all donors or the leading donors in a particular country. It was only in the autumn of 2004 that the idea of undertaking a first pilot study to assess the development effectiveness of total ODA at the country level was formally discussed by the OECD/DAC’s network on development evaluation, as a prelude to more systemic assessments, but no such study has yet been undertaken, partly because of the acknowledge-

ment of the formidable methodological problems involved in assessing the impact of all aid at the country level.<sup>13</sup>

However, a steady stream of aid studies at the country level have been carried out, often by researchers and independent scholars; an important early batch of seven was produced as background studies for the mid-1980s report to the International Task Force (Cassen and Associates 1986). Unsurprisingly, major parts of these country studies highlight the ways in which aid has had a positive impact at the sectoral level, with aid boosting resources to expand the ability of governments to increase recurrent and capital expenditure.

In relation to the wider impact of aid on poverty and growth, the bulk of the country studies are far more circumspect, and they provide differing assessments.<sup>14</sup> For instance, the Cassen study of Bangladesh suggests that the impact of aid on poverty was disappointing; its study of Colombia, that aid contributed to poverty reduction for long periods of time; and in India the evidence was mixed. Did aid contribute to growth? Again, the studies come to different conclusions both between countries and over time, though the methods used also vary, making it even more difficult to undertake a rigorous comparison of different countries. For instance, in Colombia, Uganda and Nicaragua (at particular times) it did; in Malawi, the combination of financial aid, technical assistance and institution building contributed to growth in the 1970s; the case study of Kenya concluded that it was not possible to say. Likewise, the Tanzania case study illustrates the difficulty of making an overall judgement, commenting that it is “hard to argue that aid has had a very positive effect on economic growth”, adding that growth mainly depended on factors other than aid, but concluding that the overall impact of the resource transfers was positive (Adam et al. 1994:162). Trends in poverty and economic growth have been largely downwards in Zambia, even in times of rising aid inflows, while a more recent study of Mozambique (see Arndt et al. 2006) suggests that aid has had a positive effect on growth or poverty reduction.

The overall picture emerging from these country case studies is that in most countries, aid frequently has had a positive overall impact in some time periods, but a negative impact in others. In short, aid at the country level sometimes ‘worked’ and sometimes didn’t. However, like the donor-funded country studies, one overriding conclusion to emerge from this set of case studies is a reluctance to make firm generalizations about the wider impact of aid on growth and poverty, not merely because the impact tended to differ, but because it was judged impossible simply to trace firmly and unequivocally a *direct and causal* relationship between overall growth and aid inflows, or between overall aid inflows and changes in poverty.

It was also only in 2008 that an aid-recipient country – in this instance Uganda – first commissioned a comprehensive evaluation of its overall development efforts

which focused explicitly on the contribution that aid had played in helping to achieve its poverty-reducing targets (Matheson et al. 2008). Against the backdrop of a significant drop in poverty levels, it concluded that Uganda's development partners had contributed to the significant fall in the numbers of people living in poverty, though acknowledged that it was difficult to quantify the specific contribution that the aid funds had made (Matheson et al. 2008: 22-33).

#### **OFFICIAL AID AND THE MDGS**

In recent years, more and more donors have been linking their provision of aid to the Millennium Development Goals (MDGs). What impact has aid had on the achievement of these goals?<sup>15</sup> There is a substantial and growing literature on the progress being made to achieve the MDGs (see <http://mdgs.un.org/unsd/mdg/Default.aspx>). However, a number of problems persist in judging the reliability of the methods used to assess impact.

There is, for instance, still a lack of clarity about the relationship between the MDGs as a whole and the individual goals, targets and indicators, and the amount of aid needed to achieve the MDGs. Likewise, little theoretical analysis has been undertaken outside a very few sample countries to relate aid flows to the achievement of the MDGs in different aid-recipient countries. We still do not know precisely how much aid is needed in each country, nor the share of aid that should be channeled into each specific, goal-linked area in each country to achieve the MDGs.

Trying to monitor the relationship between aid and the MDGs presents even more difficulties, and is especially handicapped by a range of data gaps and problems. Three are of major importance. The first is that some MDGs goals and targets are imprecise, making it difficult, and in some cases impossible, to assess and especially to measure progress. The second is the paucity of reliable quantitative data against which to assess progress. The third is the difficulty of trying to capture qualitative improvements with proxy quantitative indicators. Frequently, pressure to find an indicator compromises what ought to be the greater requirement – to ensure that the selected indicator accurately captures the issue to be monitored. To date, many still do not.<sup>16</sup>

For many countries and for many indicators there are no baseline data (1990 is the baseline year), and the quality and availability of data to monitor progress, especially on an annual basis, are too poor to provide an accurate measure of changes over time. Data on some indicators, such as child mortality, are broadly judged to be among the best even in some of the poorest countries, but data on many other key indicators are known to be unavailable or else crudely constructed and based on often unreliable estimates. In March 2007, the Director of the United Nations Statistics Division acknowledged the seriousness of these problems, noting that

only 17 out of 163 developing countries currently have trend data for less than half the MDG indicators (see Cheung 2007).

Efforts are being made by aid-recipient countries, donor agencies and the United Nations to try to address these problems. However, at present, it is not possible to assess, far less to measure accurately, the specific contribution that aid makes to the overall achievement of the MDGs at the aggregate level – even more difficult for individual donors to trace through the contribution that their share of total aid makes. Most progress is being made in monitoring changes in relation to what have been termed the human development MDGs (health, education, water and sanitation).

Nonetheless, it is possible to highlight some key trends in relation to the progress made in respect of different MDGs. According to a recent survey (Basu Ray 2007), indicators for equal girls' enrolment in primary school are showing positive trends – even in sub-Saharan Africa. Indicators aimed at tracking women's share of paid employment also show positive trends, including sub-Saharan Africa and South Asia. However, most of the regions have found the goals to combat HIV/AIDS, malaria and other diseases (Goal 6) and the goal to ensure environmental sustainability (Goal 7) particularly problematic. Key indicators and targets within both these goals have shown no sustained progress or, in some cases, regressive trends. For instance, despite increased attention and funding from donor governments and international agencies, the estimated percentage of adults with HIV/AIDS has increased from 2.7 in 1990 to 5.8 in 2004. Sustainable access to water in urban areas in the region has also fallen from 82 per cent of the population in 1990 to 80 per cent in 2004, and there has only been a marginal increase in rural areas – 36 per cent in 1990 to 42 per cent in 2004. The targets to achieve universal primary education are also in danger of being missed, and again, sub-Saharan Africa is struggling to catch up with the rest of the developing world. In 2004, only 64.2 per cent of children of enrolment age in the region were registered in primary school.<sup>17</sup>

Individual bilateral donors have tried to assess their own (individual) performance in relation to the achievement of the MDGs in different ways, and quite different approaches have been adopted. On one side is a group of donors, including Canada and the UK, which has attempted to monitor the relationship between the aid they provide and progress on achieving the MDGs. In the case of the UK, this involves a formal and transparent Public Service Agreement (PSA) with specific targets against which progress is assessed, using a 'traffic light' system (red/orange/green) to report on progress (DFID 2006). On the other side are countries, such as the Netherlands and Norway, which while reporting on their aid activities in the context of the MDGs, explicitly state that the multiplicity of factors which influence the MDGs and the comparatively small amounts of aid prevent them from even trying to draw direct and explicit links between their own aid activities and the achievement of the MDGs (Netherlands MFA 2007; Norwegian MFA 2004).



Clearly, these very different perspectives on whether it is possible to assess the contribution that different donors believe they are making to the MDGs according to these different viewpoints cannot both be right. Howard White, appointed in late 2007 to head the newly created International Initiative for Impact Evaluation (3IE), notes that the MDGs are not suitable for judging the performance of individual agencies (2002: 19).<sup>18</sup>

### **THE IMPACT OF HUMANITARIAN AID AND OF NGO DEVELOPMENT PROJECTS AND PROGRAMMES<sup>19</sup>**

Studying the impact of emergency aid has traditionally been considered less important than the focus on development aid for two linked reasons: because it seemed more obvious and clear that emergency aid was needed, and because it was widely assumed that of all aid, humanitarian aid was the type of aid which really did seem to 'work'. It is perhaps for these reasons that the evaluation of humanitarian aid is comparatively new. Until recently, the information provided focused largely on what had been done with the aid funds, recording for instance the people saved from floods and earthquakes, refugees fed and clothed, health care and shelter provided. Few questioned whether the portrayal of these discrete successes accurately reflected the overall aid effort, whether all those in need were reached, whether their needs were adequately met, and the effects the aid had on their lives and well-being.

The evidence, incomplete though it is, certainly confirms that plenty of good is done by emergency aid, not least in relation to lives saved. The evidence of success in term of saving lives and reaching people which the agencies themselves have been providing for many years is now being broadly confirmed by the findings of independent evaluations.<sup>20</sup> What is more, these are results which have usually been measured: the numbers of people whose lives have been saved and the numbers who have gained access to basic goods and services which they lacked and whose continued absence would increase the risk of serious disease and death. Furthermore, food, medicines and shelter to meet relief, rehabilitation and reconstruction needs have been provided or delivered to many of those who need it, resulting in lives being saved and diseases prevented, and for many livelihoods have been restored.

But the evidence of success masks a number of serious problems. Perhaps the biggest one is the lack of evidence and especially the lack of quality assessments of the impact of emergency aid. Too high a proportion of reliable surveys and syntheses of emergency aid evaluations rate as 'poor', and there is still a huge reluctance by many agencies to place evaluations of their efforts in the public domain, especially those that are more critical.<sup>21</sup> Against this backdrop, the main findings include the following:

- Overall, insufficient emergency aid is provided, and there is a huge mismatch between need and where emergency aid is allocated.
- There is often an incomplete overall assessment of needs in particular emergencies, and evidence of some aid (for instance for housing) not provided to agreed standards, often because those providing the aid do not have sufficient skills.
- Though it is often necessary to bring in supplies from outside the affected region, aid provided which is tied to purchases from donor countries still continues, raising the costs significantly.
- Though agencies have pledged to meet minimum standards when delivering humanitarian aid, the evidence suggests that there are still significant gaps between these standards and what is provided on the ground.
- Additionally, though there is growing recognition that the international community has a responsibility to protect those suffering extreme human rights abuses, the reality is a significant failure to protect – Darfur being just one example of a far wider problem.

Does development aid provided by NGOs and CSOs work? This is a very difficult question to answer because of the number, scale, size and range of different NGO activities funded by aid monies, and because of the difficulties of accessing information on impact. However, there is far more information on the impact of NGO and CSO development activities than is commonly believed, though the gap between what NGOs do and what we know about the impact of their different activities is still wide, and the information readily accessible in the public domain remains extremely limited and partial. With very few exceptions – such as CARE, Oxfam and BRAC (the Bangladesh Rural Advancement Committee, the large Bangladesh NGO) – most NGOs remain reluctant to share information on project failures, and almost no NGOs regularly place systematic information in the public domain, or have easily accessible on their websites, on the impact of a full range of all their different activities: their discrete projects for poor people and poor communities, or their advocacy, lobbying and campaigning activities.

The evidence which is available – partial and patchy though it is – suggests, in aggregate, the following:

- Most discrete projects for poor communities run by NGOs successfully achieve their immediate objectives, but many are not financially sustainable without continuing external help.
- However, exceptionally few discrete, wealth-creating or service delivery projects provide sufficient benefits on their own to enable poor people to escape permanently from poverty, though very few NGOs would claim that this is their core purpose: what outsiders view as marginal changes can be of major importance, not least to build the confidence to do more. Indeed, one of the main reasons why so many NGOs have expanded their advocacy, lobbying and campaigning activities in recent years is that they themselves are fully aware

that small discrete projects on their own are unlikely to resolve the systemic and structural problems of poverty. This is both because most see poverty as related to politics and power – or the lack of power among poor people. For most NGOs, discrete projects aim not only to improve the socio-economic conditions of the beneficiaries but also aim to enhance their power, voice and influence in wider decision-making processes. Complementing this local-level support, wider and complementary advocacy, lobbying and campaigning are undertaken additionally to attempt to change processes, structures and institutions perceived to be impeding poverty eradication.

- The evidence suggests that effective, externally supported grassroots projects are often quite costly to run and oversee, with support costs absorbing well over a quarter and often much more of total expenditure costs, both because poor and more marginalized people and communities are (by definition) more difficult to reach but also because the costs of interacting with communities to understand what they need and how aid might help are high.
- Does NGO lobbying and campaigning work? This is an issue which most NGOs and CSOs have only recently begun to try to answer in any systematic way, though assessments of such activities have been undertaken for some considerable time.<sup>22</sup> The evidence is probably slightly more robust than might be thought, and the results mixed. There would certainly appear to be far more claims of success than there is firm evidence to be able to attribute success solely to NGO activities. But there clearly have been successes, such as the debt campaign, in which NGOs and CSOs were centrally involved. However many successes constitute what outsiders might judge to be small gains at the local, grassroots level, though these can often be crucial to poor communities. Most go unnoticed and unreported not only by the international but often also by the national media.

### 3.5 **CONSTRAINING AID'S GREATER IMPACT AND HOW THESE CONSTRAINTS MIGHT BE ADDRESSED**

Whatever the differences in view about whether aid works or not, there is almost universal acknowledgement that aid could work better – the gap between what aid does and what it could do remains great. Indeed, the already large and fast-expanding literature on aid effectiveness has produced an array of studies pinpointing a range of different factors which have historically and still today adversely affect the impact of aid.

Aid involves donors and recipients, and hence its impact can be influenced by what donors and recipients do or fail to do individually, and by the interaction between the two, including the expectations that each has of the other in the overall relationship. At the country level, the impact of aid is also influenced by what donors do or do not do, both individually and as a group. Unsurprisingly, the larger

the number of donors providing aid in a particular country, the more important the systemic effects of the activities of different donors are likely to be especially, as is commonly the case, they make decisions individually about aid: how much to provide, for how long, in what form and with what conditions attached.

The literature suggests (unsurprisingly) that the impact of aid will be critically related to two recipient-end factors: both the commitment and the capacity to use aid “well” (World Bank 1998). However, there is a third factor which also needs to be highlighted, namely the capability of the recipient to use the aid to achieve its development and poverty-focused purposes. This is important because donors have historically tried to ensure that aid ‘works’ by attaching (imposing) a range of conditions on recipients as the *quid pro quo* for providing the aid: the more conditions donors impose, the less freedom recipients have to use the aid in the way they might wish, and the more likely it will be that the conditions attached by one donor are not harmonized with the conditions of another donor’s aid. More recently, greater emphasis has been replaced on recipient ‘ownership’, based on studies suggesting that aid is likely to work best, and commitment to be highest, when recipients and not donors develop their own development strategies and when recipients play the leading role in co-ordinating the aid on offer to ensure it is consistent with the country’s own priorities (see, for example, OECD 1996; World Bank 2005b).<sup>23</sup>

Until recently, far less attention was paid to examining holistically the different ways that donor activities and decisions influence the impact of development and humanitarian aid. The following paragraphs provide a brief overview of the key factors related to the donors’ influence that often result in a reduction in the aid’s potential impact.

#### **THE COMMERCIAL AND SHORT-TERM POLITICAL INTERESTS OF DONORS**

The discourse about aid effectiveness is often predicated on the assumption that aid is provided for development purposes and channeled to those who need it. In practice, however, the allocation of aid has always been influenced by other factors, of which the commercial and political interests of donors have always been important, reducing the potential development and humanitarian impact of the aid provided. Aid-giving decisions are still significantly shaped by commercial, strategic and the short-term political interests of donors, resulting in a huge mismatch between aid allocated and given to particular recipients and aid needs. For instance, less than half of the aid provided by the main donors is channeled directly to the 63 poorest countries of the world, in which the majority of the world’s poorest live (Riddell 2008: 103-5).

Additionally, donors control large amounts of aid through different processes and methods of *aid tying*, which tends to raise the costs by between 20 and 30 per cent

(Riddell 2008: 99-101). Figures for the year 2006 show that only 42 per cent of all official aid is untied, meaning that recipients are free to choose where to source the goods and services they wish to purchase with the aid provided. This doesn't necessarily mean that the remaining 58 per cent of aid is necessarily tied: we do not know the precise figure because more than half of all donors, including some of the largest such as the United States, have chosen not to report or declare the share of their aid which is tied or untied. But aid is tied in another way: most official aid is still managed by donors and not handed over to recipient governments for them to choose how best to allocate and use it. Recent figures suggest that less than 40 per cent of all official aid is disbursed through aid-recipient government channels, and probably as much as half of all multilateral aid is earmarked by the donors for particular uses, and only a third of aid provided by UN aid agencies is aligned to national priorities (OECD 2007: 15-38 and 119; International Development Association 2007: 15).

A further problem is that different donors have different priorities for 'their' aid and apply different terms and conditions to their aid-giving. As noted above, some donors, such as the Netherlands and the UK have decided to shape their aid-giving to the achievement of the MDGs. However, four of the five largest bilateral donors, whose aid comprises more than half of global ODA (US, Japan, Germany and France), do not allocate and programme their aid in relation to the achievement of the MDGs, so diluting the influence of those which have chosen to do so.

Official aid is also critically influenced by short-term political interests. This is well illustrated by recent trends in the allocation of official aid. For instance in the year 2000, between them, Afghanistan, Iraq and Pakistan received less than 2 per cent of total ODA. Five years later, in 2005, these three countries accounted for 26 per cent of all ODA, nearly a 30-fold increase. British ODA to these three countries increased not 30-fold but 50-fold. By 2005, Iraq and Afghanistan were amongst the top 15 largest recipients for 17 of the largest 19 bilateral aid donors, although ten years earlier neither of these countries was in the top 15 of any major donor country.<sup>24</sup> Today, one in every five dollars that the US spends on development assistance is now handled by the Department of Defense (DoD), and the Pentagon share of US development spending has increased three-fold in the past five years, to total some \$ 5.5 billion annually (Patrick and Brown 2007: 1).

### **A MULTIPLICITY OF DONORS AND PROJECTS**

Most aid is provided by individual donors who administer their own distinct programmes in each major country to which they choose to channel their aid. Today, there are some 200 official aid donors, and as, for example, the number of EU member states has increased, so have the number of official aid donors.

At first sight it might seem that more donors equates with more aid and hence that the growth in donors and their projects has a long-term beneficial effect. However, the time is long past when this was the case, in the context of little aid and few donors. For over 30 years, the systemic effects of more donors, more projects and more conditions has been perverse, as the following figures illustrate.<sup>25</sup> The number of individual aid transactions taking place annually is huge and increasing: in 2005, the number was estimated to be 60,000, three times the number less than ten years ago, while the average size of each transaction has progressively fallen (IDA 2007: 22). On average, there are 54 separate aid Project Implementation Units in each recipient country; if the Paris targets are met, the average number will still be 18 (OECD 2007: 26-8). In the 1960s, each recipient had to deal with about 12 donors, by 2005, the number had tripled to about 33. In 1990, no aid recipient country had to interact with more than 40 individual donors; today at least 30 recipients have to deal with more than 40 donors (IDA 2007: 19).

#### **CONSEQUENCES OF THE VOLUNTARY NATURE OF AID-GIVING: VOLATILITY AND UNPREDICTABILITY**

Today, as in the past, official aid-giving remains an entirely voluntary act with each individual donor deciding itself how much aid to give and to whom it will be given. The pledges made at successive international conferences and summits to increase the total amount of official aid are little different from earlier international commitments to expand aid, which have a history stretching back more than 30 years. They remain what they were – merely promises. They are not binding on donor countries and bear no sanctions for promise-breakers. Indeed, there is not even a commitment for any donor country or group of donor countries to make up the shortfall in aid if some donors individually break their promises.

Two consequences of the voluntary nature of aid-giving is that recipient countries do not know from one year to the next the total amounts of aid they will receive. Aid levels remain both volatile and unpredictable. As a result, recipient governments are unable to plan expenditures over the short-term, and often not even in the current year. This leads recipients to be extremely reluctant to make full use of the aid which is provided, especially for recurrent expenditure, for fear that current aid levels will not be sustained, leaving them without the funds, for example, to pay the salaries of teachers recruited with increased aid not guaranteed to be provided in the future.

#### **ADDRESSING AID'S SYSTEMIC PROBLEMS**

Viewed from an historical perspective, the Paris Declaration is important as it is if not the first, then the most comprehensive acknowledgement that what donors do (or do not do) in a systematic way influences the impact of aid. It highlights the

need for donors to work more closely together (to ‘harmonise’ their individual aid efforts and activities) and to align their aid more closely with development plans devised and owned by recipient countries. The Declaration also acknowledges the “failure (of donors) to provide more predictable and multi-year commitments on aid flows to committed partner countries” (OECD 2005a: 2).

Following the signing of the Declaration, advances have been made by donors, especially in regard to alignment and harmonization. However, studies suggest that progress has been slow and halting, and that by the time of the Accra Conference in September 2008, the gap between what was expected and what has happened remained large.<sup>26</sup> Though the problems of the unpredictability of aid have received increasing attention, donors seem to have made few advances in addressing these problems either individually or together.

Perhaps the most fundamental problem that donors have yet to address adequately is that they have not shown sufficient willingness and resolve to move away from an aid system in which each donor continues individually to choose whether and how they will engage and provide aid. What recipients need are predictable amounts of aid, provided to fund far fewer discrete initiatives and by fewer donors each wanting to influence what happens with their aid funds, so recipients can plan how to use all aid resources in the most efficient way.

The following comprise the core building blocks of an aid system for the poorest countries which addresses aid’s systemic problems. The first is an acceptance by all nation states, but particularly the wealthier ones, of the obligation to provide assistance independent of their own commercial strategic and short-term political interests, and channeled to those countries unable, on their own, to ensure the fundamental rights, basic needs and core freedoms of their own citizens. The second is an acceptance of the need for compulsory contributions by the rich countries, provided on the basis of their relative wealth, and pooled into an aid fund of sufficient size to meet the total aid needs of the poorest countries, based on the aggregate assessments of their individual aid requirements. Aid funds from such a common pool would be channeled to each of the poorest countries to help meet their needs and address the financial, skills and other requirements upon which the assessment of aid needs was based.

The main challenge in creating such a system lies less in agreeing these broad principles and core building parameters and far more in debating and agreeing precisely how a workable system might be established, and to gain the support of all nation states, both donor and recipient governments. Here, the greatest hurdle is unlikely to be the switch from voluntary to compulsory donations or the distancing of aid-to-the-poorest from the commercial and short-term political interests of the donors. Rather, it is likely to hinge on the confidence of the main

donor governments that the recipient countries accessing aid funds from the common pool will make good use of the aid funds provided. A new and different aid system based on these principles is unlikely to evolve in the short-term.<sup>27</sup> In the interim, one way forward would be to focus on change at the country level. One proposal here would be for the main official donors providing aid to different poor countries first to agree with recipients the amount of aid (ODA) needed which they could absorb, and then for them to commit themselves as a group to providing this quantity of aid over a specified number of years. In other words, all donors would jointly share the responsibility for ensuring that this amount of aid is actually provided, deciding among themselves how much each would individually contribute, and agreeing how to maintain that level in the event of unanticipated shortfalls.<sup>28</sup>

### 3.6 CONCLUDING COMMENTS: AID AND THE WIDER PERSPECTIVE

Does foreign aid work? The preceding discussion suggests four initial conclusions. Firstly, much aid has contributed to growth, development, poverty reduction and saving lives and restoring livelihoods in emergency situations. Secondly, however, much aid has not worked because of factors attributable to the aid relationship (donors providing aid with inappropriate and unworkable conditions, recipients not committed to using it ‘well’) and because other (external factors) have swamped and swallowed up the beneficial effects that the aid has had. Thirdly, we still don’t know enough about aid impact, particularly the relationship between aid and broad development outcomes at the country level. This is worrying as it is the key question that people want answered. Our fourth conclusion is that aid impact can be improved – significantly. A lot is known about what is currently impeding a greater impact of the aid, and a number of key constraints can be addressed if only donors, in many cases, and recipients, in some, are genuinely committed to doing so. The historical evidence suggests that over the past ten or so years, both donors and recipients have been more willing to begin to look seriously at some of the key underlying systemic problems which continue to impede aid’s greater effectiveness. Though the aid community, and especially the donors, are still some way from *solving* these problems, and there have been setbacks, progress has been made, slow and halting though it appears to many commentators and civil society groups.<sup>29</sup>

The final point to make relates to the expectations we have about aid impact. It is important to place the role of aid in its proper perspective. Though the case for aid – even the case for providing more aid – can be made, its importance lies in the role it can and does play in helping to save lives, in speeding up the development process and in helping to reduce more quickly the number of people living in poverty. However, plenty of lives are saved without international emergency aid, development can and does occur without aid, and hence, in this sense, aid is not



necessary for development. Likewise, not all aid is provided or used for the purpose of addressing poverty directly and immediately. To be effective, aid doesn't necessarily have to be used directly by poor people: key outcomes like poverty reduction can arise as a result of indirect approaches such as stimulating production which can lead to more jobs being created. Indeed, to help to establish the building blocks necessary for self-sustaining growth and development, aid can play an important role in expanding and improving the physical infrastructure, building capacities, strengthening institutions or improving governance structures. Too often in profiling the positive effect that aid projects and programmes have had, those giving aid have been too ready to let the public misguidedly believe that merely by providing more aid to poor countries, the problems of poverty will be solved, or the MDGs will be achieved. What matters as much, if not more, than *aid* effectiveness is *development* effectiveness. For donors, this means ensuring not only that the aid they provide is used to contribute to helping maximize the use of all resources (internal as well as external) an aid recipient is able to deploy, but also that all their international and domestic policies – covering fiscal, money, trade and migration – are consistent with the aims and objectives of their aid policies.<sup>30</sup>

Finally, this wider perspective provides the context for approaching one specific question that is frequently asked about aid impact – does *most* aid work? This question is seen as important by those who believe that the argument for providing aid depends – crucially – on its aggregate or overall impact: if most aid works, then this is reason enough for providing it: if most aid doesn't work, then there is no point in providing it. What is interesting about this way of thinking about aid is that it is most commonly deployed when discussing development aid, but rarely, if ever, when discussing emergency aid. When the next tsunami comes along, few if any will listen to those who might say, “don't give aid to the victims of this tsunami as so much aid raised for the last tsunami was wasted”.

The surprise is that the same arguments tend not to be used when considering the merits of providing development aid. This is because the paradox of *all aid* – development and humanitarian aid alike – is that it is most urgently needed in countries and contexts where the prospects of its working most effectively and productively are often amongst the poorest. The problems which lead individuals, communities and countries to require both development and emergency aid (poverty, hunger, disease, ignorance, underdevelopment and vulnerability) are often the very attributes and factors (capacity and capability) which increase the likelihood that the aid provided will not be used effectively. In turn, these inhospitable circumstances reduce the ability of these communities and countries to access the resources and skills they need to address these urgent needs through normal market mechanisms and processes.

## NOTES

- 1 The Organization for Economic Cooperation and Development (OECD) compiles annual statistics on Official Development Assistance (ODA), widely considered the most reliable data on aid flows. These can be accessed at [http://www.oecd.org/document/11/0,3343,en\\_2649\\_34485\\_1894347\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/11/0,3343,en_2649_34485_1894347_1_1_1_1,00.html). For a discussion of the accuracy of these figures, see Riddell, 2008: 17-21.
- 2 As the Accra Agenda for Action endorsed by the High Level Forum on Aid Effectiveness in Accra, Ghana puts it (Para 22, Page 7 September 2008): “We will be judged by the impacts that our collective efforts have on the lives of poor people. We also recognize that greater transparency and accountability, for the use of development resources – domestic as well as external – are powerful drivers of progress.”  
<http://siteresources.worldbank.org/ACCRAEXT/Resources/4700790-1217425866038/AAA-Final-Draft-11-August-2008.pdf>.
- 3 Many of the issues discussed in this chapter are complex. For a more in-depth and substantial discussion of many of the points, see Riddell et al. (2008) and Riddell (2008) and the website link of the Advisory Board for Irish Aid, <http://www.abia.gov.ie/article.asp?article=98>, and the many references cited there.
- 4 Maintaining a sharp distinction between political/military assistance and development/emergency assistance has never been easy, and, for most major donors, the choice of whom to give aid to has always been shaped by political considerations. In recent years, this blurring has increased further as, in both Iraq and Afghanistan, military personnel have become directly and extensively involved in distributing humanitarian aid – challenging the historically important concept of independent humanitarian action.
- 5 For a recent discussion of the role of philanthropic agencies in development and the billions of dollars they are disbursing, see Witte (2008).
- 6 For instance, according to Ugandan national statistics, total ODA disbursements in the year 2005 amounted to \$ 775 mn, whereas the OECD records disbursements of \$ 1,198 mn, more than 50 per cent higher. In contrast for the year 2001, Ugandan statistics record aid disbursements of \$ 882 mn, some 10 per cent higher than the OECD figure of \$ 790 mn. According to the OECD/DAD database, the United States was the single largest donor to Uganda in 2005, providing \$ 242 mn in ODA. But according to Uganda, ODA from the United States amounted to only \$ 72 mn in 2005 (Source: Ministry of Finance, Planning and Economic Development (MFPED) 2005: 22, MFPED, 2006: 22-23, and OECD Development Database on Aid from DAC Members: DAC online [http://www.oecd.org/document/33/0,2340,en\\_2649\\_34447\\_36661793\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/33/0,2340,en_2649_34447_36661793_1_1_1_1,00.html)).
- 7 The literature commonly uses the term “the new aid modalities” which, broadly, refers to aid from different donors being brought together to provide additional funds at the sectoral or national level, for example under Sector-Wide Approaches

(swaps) or as budget support, sometimes involving pooling together the aid funds of groups of different donors. The impact of these new aid forms will be discussed below.

8 See Riddell (2008: 180ff) for further details.

9 For instance, a 2001 study for the UK's Department for International Development (DFID) ran a quality control test on the results of project completion reports, and found that one-quarter of all reports may have over-scored project achievements. Similarly, the Asian Development Bank found that following in-depth reviews, it had to downgrade almost a quarter of its project ratings in the period 1995-99; later reviews indicated that by 2005, only nine per cent needed to be downgraded, still a significant number (Riddell, 2008: 186-7).

10 It has been argued with some justification that if evaluations are undertaken by consultancy companies whose business is based on securing contracts with aid agencies, then these independent consultants have an interest in pleasing their clients.

11 See, for example, Duflo (2003), Banerjee (2007) and <http://www.cgdev.org/content/opinion/detail/15102/>.

12 There are exceptions. One was a study on the impact of European aid on poverty. Overall, it found that 25 per cent of projects had had a large impact, 48 per cent a moderate impact and 27 per cent a negligible impact on the poverty of recipients (Cox and Healey, 2000: 88).

13 The proposal and background documentation are contained in Bigsten et al. (2006).

14 See, for instance, Adam et al. (1994), Cassen (1986), Krueger et al. (1989), and Mavrotas et al. (2003). The country case studies are discussed further in Riddell (2008: 214-22).

15 The MDGs comprise eight goals (fleshed out into 18 more specific targets): Goal 1: between 1990 and 2015, to halve the proportion of people whose income is less than \$ 1 a day. Goal 2: to ensure that all children complete a full course of primary education. Goal 3: to eliminate gender disparity in all levels of education by 2015. Goal 4: to reduce by two-thirds the under-five mortality rate between 1990 and 2015. Goal 5: to reduce by three-quarters the maternal mortality rate between 1990 and 2015. Goal 6: to halt by 2015 and begin to reverse the spread of HIV/AIDS. Goal 7: to integrate the principle of sustainable development into country policies, reverse the loss of environmental resources, and halve by 2015 the proportion of people without access to safe drinking water and basic sanitation. Goal 8: to develop a global partnership for development.

16 These and other issues, in the discussion of aid and the MDGs are discussed, for example, in Clemens et al. (2007) and in the October edition of the UNDP journal *Poverty in Focus*, <http://www.undp-povertycentre.org/pub/IPCPovertyInFocus12.pdf>.

17 What these data do not tell us is the relationship between aid and the MDG indicators monitored.

- 18 <http://www.3ieimpact.org>.
- 19 Space does not permit more than a summary of the discussion of the impact of humanitarian aid and the development projects and programme of NGOs. For a fuller discussion, see Riddell (2008), especially chapters 16 to 19. There have been very few studies, as yet, assessing the impact of the aid projects and programmes of the new private sector-funded foundations.
- 20 See particularly the annual syntheses of evaluations produced by the global humanitarian group, the Active Learning Network for Accountability and Performance (ALNAP), cited in the bibliography.
- 21 Since 1999, ALNAP has conducted an annual synthesis of all humanitarian evaluations sent to it by the members of its comprehensive network. Every year since they were first produced, these reviews have expressed concern at the poor quality of the evaluations of humanitarian aid reviewed. The 2005 report is typical: it noted some improvements, but overall, the quality of evaluations were judged to be 'unimpressive', with only just under half rated as satisfactory or better, and only 40 per cent judged as having satisfactorily assessed the overall impact of the humanitarian activities of the agency concerned. In its 2005 review, only a single report out of more than 40 received a 'good' quality rating assessment (p. 131, 156 and 157). Donor agencies were rated slightly better than NGOs, followed by the UN agencies (p. 131). The 2005 ALNAP report judges that in the three years to 2005, only about half of all evaluations reviewed achieved satisfactory or better ratings in relation to a central criteria for judging humanitarian action: reaching population groups facing life-threatening suffering wherever they are, providing them with assistance and protection proportionate to their need and devoid of extraneous political agendas (p. 158).
- 22 See, for instance, Covey (1994) and Miller (1994).
- 23 This approach to aid is central to the Paris Declaration signed by all official donors of the OECD and a large number of recipients in 2005, and confirmed at the High-Level Meeting in Accra, Ghana, in September 2008. See OECD (2005) Paris Declaration on Aid Effectiveness. Paris, March 2005, <http://www.oecd.org/dataoecd/11/41/34428351.pdf>.
- 24 Figures from the OECD/DAC statistical database, [http://www.oecd.org/document/33/0,2340,en\\_2649\\_34447\\_36661793\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/33/0,2340,en_2649_34447_36661793_1_1_1_1,00.html).
- 25 Forty years ago, the first international commission on international aid judged that even then there were too many donors (Pearson, 1969: 22).
- 26 The most comprehensive assessment of the Paris Declaration is the study of Wood et al. (2008). *Inter alia*, this study comments that "most donors have yet to prepare their publics and adapt their legislation and regulations as necessary to allow for: putting less emphasis on visibility for their national efforts and tying aid to their own suppliers; accepting and managing risks in relying on country and other donor systems rather than instating or applying their own; agreeing to delegate greater decision-making power to in-country staff; assuring more predictable aid flows; and finding ways to resolve political disputes with partner

countries without undermining long-term relationships.” (p. xii).

27 These ideas and their background within the aid literature are discussed in Riddell  
(2007: 3-5) and (2008: 389-413).

28 Although this way of approaching the provision of aid is clearly very different  
from prevailing practice, the move to a more ‘hands-off’ approach to aid is begin-  
ning to be discussed in international fora (see Barder and Birdsall 2006; Birdsall et  
al. 2008; Riddell 2007: 389-413; and Riddell and Kotoglou 2008: 27).

29 For some quick overviews see, for instance, IBON International (2007), Booth  
(2008) and Brown and Morton (2008)

30 See Matthews and Associates (2006) for a discussion of the importance of policy  
coherence in international development.

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## 4 UNDER-EXPLORED TREASURE TROVES OF DEVELOPMENT LESSONS: LESSONS FROM THE HISTORIES OF SMALL RICH EUROPEAN COUNTRIES

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### 4.1 INTRODUCTION: LESSONS FROM HISTORY, OR RATHER THE ‘SECRET HISTORY’

The development orthodoxy of the last quarter century has espoused a free-market policy. It has argued for, among other things, free trade, deregulation of foreign direct investment (FDI), privatization of state-owned enterprises (SOEs), and strong protection of intellectual property rights (IPRs) as key policies that are needed for developing countries to grow and develop their economies.

In the promotion of these ‘good policies’ by the orthodoxy, the history of today’s rich countries has played an important rhetorical role. It is explicitly and implicitly suggested that those countries have become rich only because they followed those ‘good’ policies – the implication being that countries trying to do it in a different way are bound to fail, as that is more or less going against the ‘law of nature’. The awkward examples of the East Asian countries (such as Japan, South Korea, and Taiwan), which used protectionism, restrictions on FDI and other ‘bad’ policies, are brushed away as ‘exceptions that prove the rule’.

However, it is increasingly recognized that the ‘real’ histories of the rich countries are very different from the ‘official’ history that forms the backdrop to the orthodoxy (Bairoch 1993, was the pioneer; Chang 2002, 2007; and Reinert 2007 are main recent contributions).

Not just countries like Japan and Korea, whose trade protectionism is well known, but all of today’s rich countries have used protectionism for substantial periods, except for the Netherlands and Switzerland (until World War I). In particular, it is important to note that, contrary to conventional wisdom, the UK and the US – the supposed homes of free trade – were in fact the most protectionist economies in the world in their respective catching-up periods (between the early 18<sup>th</sup> century until mid-19<sup>th</sup> century for the former and between the mid-19<sup>th</sup> century until World War II for the latter). Indeed, it was none other than the first US Treasury Secretary, Alexander Hamilton, who invented the so-called infant industry argument, which provides the strongest justification for protectionism in developing countries (Chang 2002: ch. 2; Chang 2007: chs 2-3).

Many of today's rich countries regulated FDI when they were on the receiving end – the US, Japan, Finland, Korea, Taiwan are particularly striking examples (Chang and Green 2003; Chang 2007: ch. 4). In the 19<sup>th</sup> century, the US banned or heavily regulated FDI in natural resource exploitation (such as mining and logging), coastal shipping, and finance (banking and insurance) – sectors where FDI was concentrated at the time. In national (as opposed to state-level) banks, foreigners could not become directors, and foreign shareholders were not even allowed to vote in shareholder meetings. Japan, and to a lesser extent Korea and Taiwan, more or less banned FDI in key sectors and heavily regulated them in other sectors until the 1980s. Finland also had draconian regulation on FDI until the 1980s (more on this later).

Many of today's rich countries used SOEs extensively when they needed them (Chang 2007: ch. 5; Chang 2008). In the early 19<sup>th</sup> century and the late 19<sup>th</sup> century, respectively, Germany and Japan kick-started their industrializations with SOEs (then known as model factories) in industries like textile, steel, and shipbuilding. In the post-WWII period, France, Norway, Finland, Austria, Taiwan, and Singapore used SOEs extensively to modernize their economies.

In the early days of their industrialization, when they needed to import technologies from abroad, today's rich countries all protected IPRs of foreigners only weakly (Chang 2001; Chang 2007: ch. 6). Many of them explicitly allowed the patenting of foreign inventions, while the Netherlands and Switzerland openly refused to introduce patent law until the early 20<sup>th</sup> century (more on these later).

The examples could go on, but the point is that none of today's rich countries have become rich without violating at least some (and often all) of the recommendations of today's economic orthodoxy. The obvious conclusion is that all those supposedly 'bad' policies – protection, regulation of FDI, use of SOEs, violation of IPRs – may not be as bad as the orthodoxy makes them out to be or may even be beneficial, or necessary, in the early stages of economic development.

However, this obvious lesson is generally ignored in the orthodox circles.<sup>2</sup> Most people still firmly believe in the 'official history'. Worse, even as the 'secret history' of capitalism is revealed more and more, the rich countries have been making it increasingly difficult for the latter countries to use policies that they employed when they were developing countries themselves. Over the last quarter of a century, the IMF and the World Bank conditionalities, the conditions attached to bilateral aid, the WTO rules, and the intellectual hegemony of the rich countries, especially the Anglo-American countries, have continuously reduced the range of 'acceptable' policies for developing countries (Chang 2007: ch. 1).

In so far as they acknowledge the ‘secret history’, the rich countries try to justify this practice of telling developing countries ‘do as we say, not as we did’, by claiming that ‘times have changed’. It is argued that, thanks to globalization in recent years, restrictive policies that may have been beneficial in the past are no longer so, and therefore that the policies of the past cannot be a guide to today’s policy.

One problem with this argument is that there is no clear evidence that we are now living in such a ‘brave new world’ that all past experiences are irrelevant. The fact that China and India have succeeded in growing fast during the period of hyper-globalization since the 1980s, despite (or rather because of) using many of the restrictive policies that I have listed above, is a testimony to the fact that many of those allegedly ‘obsolete’ policies are still valid. Indeed, the period in which most of today’s rich countries industrialized using ‘wrong’ policies was another era of high globalization in the late 19<sup>th</sup> and the early 20<sup>th</sup> century, when the world economy was as globalized as today, or even more so in areas like immigration (Hirst and Thompson 1999: ch. 2; Kozul-Wright and Rayment 2007: ch. 2).

Moreover, globalization is not a process beyond human control. The global economy has evolved in the way it has at least partly because of the conscious political decisions by the rich countries to adopt (and impose) liberal policies. Many of the ‘bad’ policies cannot be used simply because the rich countries have re-written the global rules and banned their use. For example, import quotas or export subsidies cannot be used because the WTO has banned them (except for the least developed countries in the case of export subsidies). Many policies that are still permitted have become less effective at least partly because of the changes in global rules in other areas. For example, regulation of FDI has become less effective because many developing countries have opened up their capital market and made it easier for transnational corporations to leave. If the rich countries are willing to re-write the rules of the global economy, many of those ‘obsolete’ policies will become usable and/or more effective again.

Of course, in criticising this ‘end of history’ point of view, I do not wish to create the impression that there is no limit to drawing lessons from historical cases. All historical cases have occurred, by definition, in a particular context – with a conflation of particular national and international factors – and it is impossible to replicate all, or even most, of these factors. However, no one is – at least I am not – suggesting that today’s developing countries can, or indeed should, exactly copy the policies used by, say, the 19<sup>th</sup>-century US or 1950s Austria. All I am suggesting is that our thinking on development policies can enormously benefit by looking at historical cases.

First of all, looking at historical cases, recent and distant, expands our ‘policy imagination’. This is because, as they say, “life is often stranger than fiction”. Real

life examples often produce policy and institutional combinations that are impossible to imagine on the basis of pure theory. For example, despite its reputation for free trade and welcoming attitude towards foreign investors, not only does Singapore produce 22 per cent of GDP in the SOE sector but its government owns virtually all the land, supplies 85 per cent of housing, and runs one of the most draconian forced-savings scheme in the world (Chang 2008: Box 1). Likewise, as we shall discuss later, Sweden and Denmark have built two of the most equitable and prosperous societies in the world, despite each having a single family dominating the economy. Even the most imaginative theoretical economists would not have been able to come up with these models, had they not known about the real Singapore, Sweden, and Denmark. By looking at historical cases, we get to break out of preconceptions on what is possible and can expand our policy horizon.

Second, I believe that we have the moral duty to extract as many lessons as possible from history (recent and distant), given that ‘live experiments’ in development policy can have, and often has had, huge human costs. The human costs of all those policy experiments that were supposed to provide the ‘final’ solution – such as Soviet-style central planning and IMF-World Bank structural adjustment programmes (SAPs) – are well known. Even when the experiments are not based on such ‘arrogant’ theories, mistakes do happen. If we can learn the right lessons from experiments that have already been done (i.e. history), we can avoid costly policy mistakes. It is our moral duty to do so.

Thus, there is a strong case for digging deeper into the ‘secret history of capitalism’. An even stronger case can be made for doing further research on the histories of what I call the SRECs (or small rich European countries): Austria, Belgium, Denmark, Finland, the Netherlands, Norway, Sweden, and Switzerland. The histories of these countries are even less well known than those of the bigger rich countries like the US, Britain, France, Germany, and Japan.

One reason for the relative neglect of the SRECs is that the large countries naturally get more attention. They are obviously more visible. They tend to be more successful – their size is in part a reflection of their successes. Being large, they have more native researchers and usually command more resources in absolute terms to fund research about themselves, both home and abroad. To put it more bluntly, it is natural that more people are working on American history than the history of, say, the Netherlands. However, that does not necessarily mean that the US is a more interesting case.

Another factor that has led to the relative neglect of the history of the SRECs is that the Anglo-American countries have had international economic, political, and cultural hegemony throughout most of the last two centuries. As a result, the view has developed that those countries – especially the two hegemons, Britain

and the US – are representative, or even the role model, of the ‘rich world’. This is particularly obvious in the so-called global standard institutions discourse, where Anglo-American institutions are presented as ‘standard’ or at least ‘best practice’ institutions (Chang 2005). Given the tendency to believe that Britain and the US represent ‘the West’, the SRECs are seen either as smaller, slightly wonky version of the US or Britain, or as ‘deviant’ economies which will sooner or later have to conform to the Anglo-American standards or face decline.

Yet another reason resides with the SRECs themselves. The scholars from the SRECs simply do not write much *for foreigners, especially poor foreigners*, about their histories. Language ability is only a small part of the explanation, as the citizens of most SRECs are famous for speaking good English for non-native speakers. The researchers from SRECs do not seem to fully realize how interesting their own countries’ experiences are. Or they seem to think that other people cannot possibly be interested in a ‘boring little country’ like theirs.

However, as I will try to show in the rest of the paper, the SRECs offer a wealth of interesting lessons for today’s developing countries. I daresay that their histories are even more relevant than those of the large rich countries for a number of reasons.

First, typically developing countries are small, like the SRECs (among which the Netherlands, with 16 million people, is the biggest). There are only a dozen or so developing countries with more than 50 million people.<sup>3</sup> The median size developing country has only about 20 million people. Of 58 African countries (both North Africa and sub-Saharan Africa), there are only 12 countries that have populations over 20 million.<sup>4</sup>

Second, the SRECs (with the partial exception of the Netherlands with its global commercial network and significant empire) and most of today’s developing countries are not significant players in the international economic and political systems. Changing the international environment is simply not a solution open to them, which limits their policy options. Third, the SRECs have laboured under natural, cultural, and political conditions that many of us think are unique to developing countries today – colonial legacy (Finland, Norway, Belgium, and the Netherlands), ethnic division (Switzerland, Belgium, Finland, Sweden), religious division (Switzerland), ideological division (Finland and Sweden), difficult natural conditions (being landlocked and mountains of Switzerland and vulnerability to natural disasters in the Netherlands), the so-called ‘resource curse’ (Sweden, Finland, and Norway), and so on.

In this paper, I will discuss selected aspects of the histories of the SRECs and try to draw some lessons for today’s developing countries. This means that I am leaving

out such features of the SRECs like social corporatism and the welfare state, which I think are less directly relevant for today's developing countries, although we can still draw indirect lessons from these aspects. I will discuss broadly four areas: agricultural development (the Netherlands, Denmark); various aspects of industrial development (Belgium, Switzerland, Austria, Finland, and the Netherlands); corporate governance and the concentration of economic power (Sweden and Denmark); political and social factors (Belgium, Switzerland, Finland, and Sweden).

The paper is *not* meant to provide a comprehensive discussion of any of the SRECs' history, which is way beyond its scope. It is not even intended to provide a full account of those aspects that it does discuss. Sometimes there is simply too little information – partly due to language barriers but mainly due to the sheer absence of research on the topic even in native languages – for me to do much more than draw people's attention to an issue, rather than providing a proper discussion of it.

The paper is merely intended to demonstrate that the histories of the SRECs are hidden treasure troves of very useful lessons for today's developing countries and that investment in further research on them (with an explicit intention to draw lessons for developing countries) will be very useful.

## 4.2 AGRICULTURE

### THE NETHERLANDS: AGRICULTURAL SUCCESS WITHOUT LAND

The Netherlands, at 395 persons per km<sup>2</sup>, has the fifth highest population density in the world, excluding city states or island states with territories less than and including that of Hong Kong (1,099 km<sup>2</sup>). Only Bangladesh (1,045 persons per km<sup>2</sup>), Taiwan (636 persons per km<sup>2</sup>), Mauritius (610 persons per km<sup>2</sup>) and South Korea (498 persons per km<sup>2</sup>) have higher population densities.<sup>5</sup> Despite this, the country is today the second largest (according to Verhoeff et al. 2007) or the third (according to the website of the Dutch Embassy in Korea<sup>6</sup>) exporter (in value terms) of agricultural products. How has the country been able to develop agriculture so much, when land – presumably the most critical input into agriculture – is the last thing it has in abundance?

Obviously, the private initiatives of Dutch farmers have been important. However, public policy and public-private partnerships have played equally important roles. It was through public policy intervention that the Dutch farmers' capabilities (individual and collective), which determine their willingness to take initiatives and the chances of success for the initiatives, were raised to a level that was equal to the challenges of maintaining high-productivity agriculture into the industrialization period and beyond.



Although the Dutch government set up the Agency for Agriculture, focusing on the collection of agricultural statistics, as early as in 1800, it was closed in 1813 (Verhoeff et al. 2007). It was not until the 1870s that it started implementing agricultural policies (Knibbe 1993: 160-1; Koning 1994: 52). The turning point came with the establishment of the State Commission on Agriculture in 1886 (Koning 1994: 86). After that, “government support of farm progress was vigorously expanded” (Koning 1994: 128). The intervention focused on what Verhoeff et al. (2007) call the “EER triptych” – education, extension, and research.

First, education. In 1875, the Dutch government took over the financing of the agricultural school in Wageningen (set up by a local private initiative in 1873) (Verhoeff et al. 2007: 333). Specialized agricultural secondary schools were set up (FAO 1950: 8). Since the 1890s, the Dutch government also introduced ‘winter courses’, providing 150-225 hours of education over one or two winter seasons, covering 5 per cent of each age cohort of the farmers by 1920 (Knibbe 1993: 163). One contemporary research categorically states that “the modernization of Dutch agriculture [between 1890 and 1930] is largely the result of agricultural education in its most basic form, such as winter-courses and experimental plots [see below – H-JC]” (Frost 1930: 102, as cited in Knibbe 1993: 163).

The Dutch government also introduced extension services in 1890, first in crops and then in horticulture and dairy production. Even though there were less than 40 ‘agricultural consultants’ (*wandelleraren*) for the whole country (32 in 1907 and 36 in 1913), they supervised hundreds of experimental plots – whose number started at only one in 1890, but rose to 809 in 1905 and to 1,020 in 1910 (Knibbe 1993: 161-2; also see Zanden 1994: 185). Extension services were closely coordinated with research. Usually (especially after 1945) the director of the experimental station (conducting research) was also the head of the extension service (Verhoeff et al. 2007: 342).

The Wageningen agricultural school was upgraded to a university in 1918 (Ingersent and Rayner 1999: 45), when it also established the Bulb Research Centre, which then became an experimental station in 1965, from then on funded 50 per cent by the private sector (Verhoeff et al. 2007: 334, 346). There was a vast increase in the number of disciplinary-oriented research institutes between 1940 and 1960, many of which were attached to the University (Verhoeff et al. 2007: 336). In 1975, there were more than 25 government-financed research institutes, covering a wide range of areas (Verhoeff et al. 2007: 336).<sup>7</sup> There were research institutes started first by private initiatives, notably horticultural demonstration gardens, but over time they acquired public funding, typically 50 per cent funded by the government (Verhoeff et al. 2007: 346).

In addition to the EER triptych, the government also provided subsidies for breeding programmes and provided inspection of livestock and of livestock products (Koning 1994: 128). It also provided financial support for plot consolidation in the 1920s (Ingersent and Rayner 1999: 30). After the Great Depression, it provided tariff protection for its farmers, despite its earlier refusal to introduce agricultural tariffs in the late 19<sup>th</sup> century, when most European countries started protecting their agriculture against New World and Russian imports (Knibbe 1993: 196-8).

The Dutch example shows the importance of education, extension, and research in building productive agriculture. It also shows the benefit of a flexible approach to public-private collaboration – sometimes the Dutch government totally took over private initiatives (e.g. Wageningen college), stepped in with partial public funding of private initiatives (e.g. horticultural demonstration gardens), but also partially handed over public initiatives to the private sector (e.g. the Bulb Research Centre). More research on technological and organizational innovations in Dutch agriculture and drawing explicit lessons for today's developing countries from them will be very useful.

#### **DENMARK: (INTERNATIONAL) COMPETITION THROUGH (DOMESTIC) COOPERATION**

The first successful co-operative, a consumer co-operative, was Britain's Rochdale Society of Equitable Pioneers, founded in 1844. The idea was developed into agricultural co-ops in Germany and Denmark.

Germany was a pioneer in credit co-ops. In 1864, Friedrich Wilhelm Raiffeisen set up co-operative banks, which later came to be known as Raiffesisen co-operative banks after the founder's name, in response to the tendency of the state agricultural bank, or the *Hypothekenbanken*, to lend only to large farms.

Agricultural co-ops blossomed in Denmark (Tracy 1989: 113-4). Credit co-ops emerged from the 1850s and retail co-ops in 1866. Co-op development in agriculture was facilitated by the transition to livestock production, which necessitated arrangements for rapid and efficient processing and marketing (especially export marketing), which was beyond the means of the individual small producer. Co-op dairies emerged in 1882 and co-op bacon factories in 1887. Egg export co-ops were started in the 1890s (starting date unclear). After the Great Depression, the government subsumed export marketing co-operatives and ran state export boards (Murphy 1957: 367-8). In addition to production co-ops, which helped with processing, marketing, input purchase, and machine timeshare, there were also co-ops for irrigation and drainage.

With the help of the co-ops, the Danish farmers could tide over the influx of cheap grains from the New World and Russia in the late 19<sup>th</sup> century without tariff protection. Not only that. They managed to establish a very competitive export-oriented agriculture. They switched from grain production to dairy and bacon production, using the cheaper imported grains for animal feed, jointly purchasing expensive inputs (e.g., cream separator, slaughter facilities), and jointly conducting marketing, especially export marketing, as these products were mainly destined for Britain and, to a lesser extent, Germany.

Today, the idea behind the co-op is widely accepted across the political spectrum to be the way forward for small and medium-sized farmers in developing countries. However, the differing successes of co-ops in different countries suggest that organizational details and implementation techniques matter a lot. Unfortunately, we don't seem to have much information in this regard, at least in the social science literature. Given this, looking more closely at real life success story with co-ops like the Danish case (together with the Japanese one, which developed generalized, rather than specialized, co-ops) would be extremely useful.<sup>8</sup>

### 4.3 INDUSTRIAL DEVELOPMENT

#### **BELGIUM: THE UNRECOGNIZED INDUSTRIAL POWER**

Unbeknownst to many people, parts of Belgium (before its formation as a country), such as Bruges, Ghent, and Ypres, were the manufacturing centres of Europe until the 17<sup>th</sup> century, due to their dominant position in woollen manufacturing, the then high-tech industry of Europe (Chang 2002: 19). Although these parts declined subsequently due to the rise of the British woollen manufacturing industry (which was orchestrated by the British state; see Chang 2002: 19-21), Belgium managed to maintain its industrial strength into the era of the Industrial Revolution on the basis of coal and metallurgical industries (Abeloos 2008: 109; Boschma 1999: 859). Since then it has remained one of the most industrialized countries in Europe and the world.

How could this small, densely populated country<sup>9</sup> with a history of foreign domination and internal division (more on this later) manage to stay right near the top of the international industrial league table for centuries?

There is no straightforward answer to this, but two issues stand out.

First, in relation to the role of the state, Belgium is often known as a free-trading nation, but its history is actually more complex than that. It did practise liberal trade policy between the 1860s and the 1930s (Abeloos 2008), but there was considerable state intervention outside this period (Chang 2002: 42-3; Boschma 1999: 861).

There were significant tariffs and state subsidies under Austrian rule during the first three-quarters of the 18<sup>th</sup> century, in an attempt to protect the industries from the English and the Dutch competitors. There were strong state supports for industrial development during the reign of King William I, the joint monarch of the Netherlands and Belgium during 1815–30. King William tried to encourage Belgian industries by even sinking his own private wealth into them (Mokyr 1974: 374). After separation from the Netherlands, the Belgian state invested heavily in railways, especially after 1834 (Abeloos 2008: 108–9). Before its transition to free trade in the 1850s, some industries were heavily protected – tariffs reached 30–60 per cent for cotton, woollen and linen yarn, and 85 per cent for iron (Chang 2002: 43).

After the 1930s, the Belgian government shifted to a more interventionist stance. Significant protection was introduced in the 1930s (Abeloos 2008: 109). Especially between the end of WWII and the 1970s, the Belgian government provided low-cost loans, R&D subsidies, and tax incentives for industrial development (Katzenstein 1984: 67–8).

The Belgian history of trade and industrial policies shows that it may be important to shift policies when conditions change – shifting from interventionism (until the 1850s) to free trade (until the 1930s) and then back to interventionism (after the 1930s) with changes in Belgium's relative position in the international economic hierarchy.

The second interesting aspect of Belgian economic history is that the country was a leading innovator in terms of financial institutions and corporate governance. There are studies that highlight the role of banks and holding companies during the late 19<sup>th</sup> century and the early 20<sup>th</sup> century (Mommen 1994). In particular, joint stock banks were pioneered in Belgium (Boschma 1999: 861). It is said that Japan deliberately copied the Belgian central bank as the “best practice” specimen during the Meiji period (Westney 1987: ch. 1). It would be interesting to see some systemic attempt to draw useful insights from the Belgian experiences with institutional innovation for today's developing countries.

#### **SWITZERLAND: THE MOST INDUSTRIALIZED COUNTRY IN THE WORLD**

Most of us think of Switzerland as a service-based economy, living on activities like finance and tourism. However, unbeknownst to most people, Switzerland is in fact the most industrialized economy in the world. As of 2002, it had the highest per capita manufacturing output in the world by far – 24 per cent more than that of Japan, the second highest, 2.2 times that of the USA, 34 times that of China, today's ‘workshop of the world’, and 156 times that of India.<sup>10</sup>

How has this continued industrial strength been possible, especially when the country has so many conditions that are supposed to hamper economic development in developing countries today – being landlocked, difficult terrain that makes infrastructural development expensive, and ethnic and religious divisions (more on that later)?

It seems clear that the Swiss federal government has few tools for promoting industrial development, although it has modestly contributed to supporting R&D (Katzenstein 1985: 71). There seems to be more industrial policy going on at the cantonal level, but we do not have much information on what the cantonal governments do. David and Mach (2007) document that cantonal and municipal governments helped Swiss national companies by providing them with subsidized gas and electricity (p. 225). Katzenstein (1984) suggests that the industrial crisis of the 1970s prompted many (although not all) cantonal governments to develop industrial policy, albeit rather reactive and superficial kinds (pp. 154-5).

But is that all? Given the decentralized character of the Swiss polity and the geographical concentration of industries (e.g. chemicals and pharmaceuticals around Basel, watch-making in French-speaking cantons, machinery in the Germanic cantons), there may be more things going on at the cantonal level, but we simply do not have enough information.

How do the Swiss do it? Are the Swiss keeping their development history a secret, as they are supposed to do with banking information? Or is it the case that the Swiss do not know the secrets of their national success themselves? We need a more systematic and deeper look at the country.

#### **AUSTRIA: STATE-OWNED AND STATE-FINANCED SUCCESS STORY**

Austria is the unrecognized ‘miracle’ economy of the post-wwII years. Although its growth has significantly slowed since the 1990s, between 1950 and 1987 per capita GDP in Austria, at 3.9 per cent per annum, grew faster than that of West Germany, the “Miracle on the Rhine” which grew at 3.8 per cent. This is second only to Japan (6%) among the above-mentioned 16 largest rich countries of today (Maddison 1989: 15, table 1.2).

What is interesting is that this growth occurred with one of the largest SOE sectors in the world. Until the massive privatization in the 1990s, Austria had the largest SOE sector among the OECD countries, both in terms of its share in GDP and in investment. Internationally comparable figures in this regard are not easy to find, but according to the comprehensive study for the IMF by Short (1984), the share of the SOE sector in total GDP in Austria was 15.8 per cent in 1970-3 and 14.5 per cent in 1978-9. The corresponding figures were 12.8 per cent in France (1966-9), a coun-

try known for the dominance of SOEs during that period, and 11.3 per cent in the UK (1974-7). A more recent World Bank study (World Bank 1995) shows the share of SOEs in Austrian GDP as 13.9 per cent in 1986-91, versus 10 per cent in France and 3 per cent in the UK (now highly privatized) (Appendix, Table A-3).

The Austrian government also provided huge amounts of direct and indirect subsidies through tax measures, state-owned banks, and investment funds. In 1980, there were 30 public investment funds at the federal level and 95 funds at the provincial level (Katzenstein 1985: 76; the following figures in this paragraph are also from the same source). Between 1963 and 1979, Austria's biggest investment fund, the Counterpart Funds of the European Recovery Programme, alone provided investment subsidies amounting to 16 per cent of total industrial investment. In the late 1970s, 40 per cent of the total volume of credits and loans extended to firms and individuals was subsidized.

Of course, according to the prevailing orthodoxy, such a prominence of SOEs and state investment funds should have prevented Austria from developing its economy. Why has this not happened? One could argue that Austria grew fast despite, rather than because of, SOEs and state investment funds, but this is simply not plausible. Their sheer magnitude is such that it would have been impossible for SOEs and state investment funds to have played a negative role, when the economy was the second-fastest growing among the OECD countries. Having said that, we need more industry-level information if we are to draw more useful lessons from the Austrian experience. For example, there does not seem to be a good account, at least in English, of how Austria was able to build a world-class auto parts industry, without having a final assembler of its own. Also, there are scintillating suggestions that industrial cooperatives and clusters have played an important role at least in some geographical areas in some periods, but there is very little information on them, at least in English.<sup>11</sup>

#### **FINLAND: THE ANTI-FOREIGN GLOBALIZER**

Finland is often overlooked as one of the economic miracles of the 20th century. According to the authoritative statistical work of Maddison (1989), among the 16 largest rich countries of today, only Japan (3.1%) achieved a higher rate of annual per capita income growth than Finland (2.6%) during the 1900-87 period (p. 15, table 1.2).<sup>12</sup> Norway tied with Finland in second place, and the average for all 16 countries was 2.1 per cent.<sup>13</sup>

What is even less well known than Finland's impressive growth performance is that it was built with a regime of draconian restrictions on foreign investment in place – arguably the most restrictive in the developed world, with the possible exception of Japan, the top growth performer.

As a country that had been under foreign rule for centuries<sup>14</sup> and one of the poorest economies in Europe, Finland was naturally extremely wary of foreign investment and duly implemented measures to restrict it (all information in the following paragraphs is from Hjerpe and Ahvenainen 1986: 287-295, unless otherwise noted).

Already in the second half of the 19<sup>th</sup> century, Finland introduced a series of laws restricting foreign investment (with the exception of the Russian nobles, as the country was then a Russian colony) in land ownership and mining, and banning foreign investment in banking and railways. In 1895, it was stipulated that the majority of the members on the board of directors of limited liability companies had to be Finnish. All these laws remained valid until at least the mid-1980s.

After gaining independence from Russia, restrictions on foreign investment were strengthened. In 1919, it was stipulated that foreigners had to obtain special permission to establish a business and guarantee in advance the payment of taxes and other charges due to the central and the local states. In the 1930s, a series of laws was passed in order to ensure that no foreigner could own land and mining rights. It was also legislated that a foreigner could not be a member of the board of directors or the general manager of a firm. Companies with more than 20 per cent foreign ownership were officially classified as “dangerous companies”, and therefore foreign ownership of companies was restricted to 20 per cent.

There was some liberalization of foreign investment in the 1980s. Foreign banks were allowed for the first time to found branches in Finland in the early 1980s. The foreign ownership ceiling of companies was raised to 40 per cent in 1987, but this was subject to the consent of the Ministry of Trade and Industry (Bellak and Luostarinen 1994: 17). General liberalization of foreign investment did not come until 1993, as part of the preparations for its EU accession ([www.investinfinland.fi/topical/leipa\\_survey01.htm](http://www.investinfinland.fi/topical/leipa_survey01.htm), p. 1).<sup>15</sup>

The Finnish history goes totally against the conventional wisdom regarding the role of FDI in economic development. If FDI is so good for economic development, how come two countries with the most draconian regulation against FDI – Japan and Finland – top the OECD growth league? The Finnish case is even more puzzling than the Japanese case, because as a very small economy (a population of 3-4 million versus Japan’s 100-120 million), Finland should have suffered even more for its ‘closedness’.

### **SWITZERLAND (AGAIN) AND THE NETHERLANDS: INNOVATION WITHOUT PATENTS**

As mentioned in the introduction, the protection of IPRs, especially foreigners' IPRs, was very weak until the 19<sup>th</sup> century, when today's rich countries established their industrialization process. However, the Netherlands and Switzerland went a step further and did without a patent law altogether.

Switzerland did not introduce any patent law until 1888. When it did, its patent law protected only mechanical inventions ("inventions that can be represented by mechanical models"; Schiff 1971: 85), where it already had international technological advantages. Only in 1907, partly prompted by the threat of trade sanctions from Germany (then the world leader in chemical and pharmaceutical technologies) in retaliation for the Swiss use of its chemical and pharmaceutical inventions, a patent law worth its name came into being.

However, even the 1907 patent law had many exclusions, especially the refusal to grant patents on chemical substances (as opposed to chemical processes). It was only in 1954 that the Swiss patent law became comparable to those of other developed countries (Schiff 1971), although chemical substances remained unpatentable until 1978 (Patel 1989: 980).

The absence of the patent law also contributed to attracting FDI into Switzerland in industries like food processing, where firms wanting to produce patented products came to set up production facilities (Schiff 1971: 102-3).

The Dutch case is even more interesting. The Netherlands actually had introduced a patent law relatively early in 1817 (the earliest patent laws were established in the 1790s), but abolished it in 1869 on the ground that patents are artificially created monopolies that are not compatible with its free-trade principle.<sup>16</sup> In the Dutch case, Philips is the best known beneficiary of this patentless regime, having been established in 1899 and its growth fuelled by manufacturing light bulbs, whose patents were held by Thomas Edison.

Despite the absence of a patent law, Switzerland and the Netherlands were technologically innovative and dynamic during the 'patentless' period (Schiff 1971). Together with the generally lax IPR regimes of other rich countries at the time, their examples provide us with food for thought regarding the reform of the international patent and other IPR systems in a way that helps today's developing countries absorb and master superior imported technologies (Chang 2001; Chang 2007, ch. 6).



## 4.4 CORPORATE GOVERNANCE AND THE CONCENTRATION OF ECONOMIC POWER

### SWEDEN: THE WALLENBERGS AND THE 15 FAMILIES

Sweden is by any standard one of the most equitable societies in the world. However, it has arguably the largest concentration of corporate power in the world (in proportional terms), in the form of the Wallenberg family.

According to various estimates, the Wallenberg companies employed one in seven or eight industrial workers as of the 1960s (Magnusson 2000: 217), indirectly controlled 1/3 of GDP as of the late 1980s (Burton 1990), and controlled more than 42 per cent of the stock exchange as of 1998 (Agnblad et al. 2001: 244) – staggering figures by any standard.

They manage these enterprises through three family foundations that control the holding company, Investor, and a bank (SE-Banken) (Agnblad et al. 2001). Virtually all major Swedish household names, except for Volvo, are Wallenberg companies – Saab-Scania (aircraft and trucks), Ericsson (telephone), ABB (formerly ASEA, engineering), Syngenta (formerly Astra, pharmaceuticals), Stora Enso (formerly Stora; paper and pulp), SKF (bearings), Electrolux (household goods), and SAS (airlines), just to name the most famous ones.

Even more interestingly, the Wallenbergs are not unique, although their dominance is unparalleled. They are one of the “15 families” that used to dominate the Swedish economy – Wallenberg, Söderberg, Wehtje, Bonnier, Johnson, Sachs, Kempe, Åhléns, Klingspor, Throne-Holst, Jacobsson, Åselius, Schwartz, Jeansson-Högberg-Hain, Roos, Dunker, Hammarskjöld, Broström and Wenner-Gren (Magnusson 2000: 220). Since the 1980s, the talk was increasingly about the “10 families”, as some of them (e.g. Wenner-Gren) declined (Magnusson 2000: 220-1), but it is clear that the Wallenbergs are not alone.

This is striking. We often hear about problems of elite entrenchment in developing countries – the “22 families” of Pakistan being the most frequently mentioned example. Concentrated economic power is supposed not only to create an unequal society but also prevent economic development by blocking structural change. Then how did Sweden, with its “15 families”, and especially the dominance of the Wallenberg family, manage to avoid this fate?

One part of the answer seems to be in the nature of the social pact that was struck in the 1930s, where the workers accepted the existence of large corporate power in return for the capitalists’ acceptance of a high-tax welfare state and full employment. On top of that, the self-restraint in personal life exercised by the Wallen-

bergs (we do not have information on the other families) seems to have also mattered. For example, a 1998 magazine article estimated the combined personal fortunes of Jacob and Marcus Wallenberg, the then two 'new generation' leaders of the family business empire, to be only \$ 15 million (Madslien 1998). Through the family foundations, a lot of money has been donated to science and research (Tjerneld 1969: 101).

Obviously, these practices by the Wallenberg family are culturally and politically context-dependent, and need to be properly 'translated' into the local context if we are to transfer them to other countries. However, they at least tell today's developing countries that they can build an equitable society even if they do not destroy the top business families.

#### **DENMARK: THE MAERSK FAMILY**

Even less well known and more difficult to understand than the dominance of the Wallenberg family in Sweden is the dominance of the Maersk-Møller family of the Maersk Group in Denmark. There is very little written in English on its role.

According to a Danish source, it was only in 2003 that the Danish Statistical Agency first calculated the contributions of the Maersk group (Benson et al. 2007: 477). According to these estimates, its turn-over was 157 billion kroner, when the Danish GDP was 1,400 billion. Of course, turnovers and GDP are not strictly comparable, as the latter are value-added figures. The Agency estimated Maersk's contribution to total production at 7.2 per cent. Its employment was estimated to be around 3.3 per cent of total employment.

While its economic importance is much less than that of the Wallenberg companies, the Maersk group has been even more closely and, more importantly, far less transparently tied into the Danish state. According to Benson et al. (2007), the state subsidies it received for the Lindø shipyard construction were very large and decided through quite opaque processes. The concessions that it got on the offshore oil fields were even greater and even less transparent.

This sits uncomfortably with the widespread perception of Denmark as an egalitarian, 'clean', and transparent society. How do we account for this? Does it mean that the Danes are simply keeping quiet (at least to the outside world) about their 'dark side'? Or is there some mechanism through which the Danish state's relationship with the Maersk group is legitimized? If the latter, could today's developing countries construct an egalitarian and 'clean' society without having to completely change the structure of power and privilege in the top echelon of their societies? These are some questions whose answers would be very helpful for today's developing countries.

## 4.5 SOCIAL AND POLITICAL FACTORS

According to today's orthodoxy, any form of social and political division (ethno-linguistic, religious, ideological) is detrimental for development – it can cause civil wars and other violent conflicts, destabilizing the economy. Even when there are peaceful power-sharing arrangements, it is likely to cause rent-seeking, inefficiencies due to duplication of efforts, and corruption to buy off opposition. However, many SRECs have managed to build prosperous economies despite their divisions.

### **BELGIUM: TWO-AND-A-HALF LANGUAGES**

Belgium has two linguistic groups – the French-speakers (the Wallonians, who account for about 40 per cent of the population) and the Dutch-speakers (the Flemings, who account for about 59%) – or three, if you count the tiny group of German-speakers (around 0.6 per cent of the population).<sup>17</sup> In the 19<sup>th</sup> century, the French-speaking elite treated the Flemings as second-class citizens. After World War II, the enmity between the two groups became intensified, and Belgium was changed from a unitary state to a federal state in a series of constitutional reforms in the 1970s and the 1980s. Even the main political parties – the Liberals, the Christian Democrats, and the Socialists – are split into distinct ethno-linguistic groups. Few countries have more explicit inter-ethnic power-sharing arrangements.

Despite all this, Belgium has survived nearly two centuries of deep ethno-linguistic division and economically prospered. How has this been possible? In particular, how has its explicit ethnic power-sharing arrangement not resulted in political paralysis (albeit not without some gridlocks) or, alternatively, huge inefficiencies and corruption? Answers to these questions would be useful for those developing countries that suffer from ethnic divisions.

### **SWITZERLAND: THREE-AND-A-HALF LANGUAGES AND TWO RELIGIONS**

If anything, Switzerland should be in an even bigger mess than Belgium. Instead of three ethno-linguistic groups, it has four – the German-speakers (73 per cent of resident citizens), the French-speakers (21%), the Italian-speakers (4%), and the Romansh-speakers (about 0.6%).<sup>18</sup> Unlike Belgium, where Catholicism is dominant (although it is constitutionally a secular state), Switzerland is divided between the Catholics (41%) and the Protestants (43%).<sup>19</sup>

One interesting thing is that, unlike in Belgium, linguistic division was never a major issue in Switzerland. On the other hand, religious division was a very divisive issue, although not in a totally straightforward way. Since the Reformation in the 16<sup>th</sup> century, the country has experienced a series of religious conflicts, espe-

cially the Battles of Villmergen in 1656 and 1712. In 1847, it even experienced a full-scale (albeit short) civil war (Sonderbundkrieg). The war was started because seven conservative Catholic cantons (Lucerne, Fribourg, Valais, Uri, Schwyz, Unterwalden and Zug) formed an alliance (against the 1815 constitution banning all internal alliances) and rose against the persecution of the Catholic Church.<sup>20</sup> All the other Cantons, including other Catholic ones, except two (Neuchâtel and Appenzell Innerrhoden, which remained neutral) fought against the Sonderbund cantons (therefore, the religious division was not a 'straightforward' Catholic-Protestant divide). The latter were defeated, and a new constitution was adopted in 1848 to end the almost-near independence of cantons and create a proper federal state (David and Mach 2007: 227).

Compared to those in Belgium, the conflicts between different groups in Switzerland were more open and violent. Unlike in the Belgian case, where the ethno-linguistic division has recently deepened, the basic structure of Switzerland's 1848 constitution, which does not have any explicit power-sharing arrangements among linguistic or religious groups, has been maintained. How is this possible? Decentralization of power at the cantonal level may have helped, but that cannot necessarily be the right explanation, given that internal conflicts in Switzerland were more severe in the days when the country was more decentralized.

#### **FINLAND: BLOODY CIVIL WAR AND ANTI-COMMUNISM**

Finland was a Swedish colony for over 600 years (c. 1150-1809), before it was taken by Russia for another 100 years or so (1809-1917), until it gained independence in 1918.

The Swedish colonial history left a sizeable Swedish-speaking minority (now around 5 per cent of the population, but it used to be over 10 per cent even until the 1920s). Immediately after independence, the overwhelmingly Swedish-speaking Åland Islands wanted to join Sweden, creating an international dispute (where the League of Nations ruled in favour of Finland). Åland stayed after (grudgingly) accepting 'autonomous province' status.

The independence from Russia was followed by a bitter civil war, where close to 40,000 people perished in a country with a population then of around three million. The Civil War left a bitter legacy. The victorious right deprived the Communists of voting rights until 1944. The strong anti-Communist feeling that developed in the ruling circles following the Civil War led Finland into the arms of Nazi Germany, whose defeat meant that Finland had to cede some territory to the USSR, reject Marshall Aid, and pay very heavy war reparations to the USSR, which crippled the Finnish economy throughout the 1950s.

Thus, the recent history of Finland seems as turbulent as that of most developing countries today that are supposed to be failing because of ethnic, religious, and ideological divisions. How did Finland build a peaceful and consensual society out of this unpromising background?

#### **SWEDEN: NOT SO UNITED**

Although it was Norway that pioneered a social pact in the form of the Basic Agreement in 1935, probably the best-known and arguably the most successful one is Sweden's Saltsjöbaden Agreement of 1938.

Given that Sweden is ethno-linguistically and religiously very homogeneous (the Finnish speakers, about 3 per cent of the population, are the only numerically significant linguistic minority, and the Lutheran Church dominates the country), people think that social compromise in Sweden was 'easy'.<sup>21</sup>

However, this is not true. In the 1920s, Sweden was one of the most conflict-ridden societies in the world – it had the worst industrial relations in the world, measured in terms of the number of days lost in industrial disputes (Korpi 1983). This is not so surprising when we consider that it had a radical socialist union and a very rightwing capitalist class – so rightwing that it refused to accept income tax until 1932, whereas Britain introduced it nearly a century earlier (1842) and even the famously anti-tax US introduced it nearly 20 years earlier (1913).

Being mostly Swedish-speaking and Lutheran did not make the Swedes all alike and therefore prone to compromise. It was actually precisely out of the crucible of intense conflicts that they have forged a durable social pact. Developing countries can learn a lot from the Swedish experience in figuring out how to reach a durable compromise in a society that is seemingly unable to compromise.

## **4.6 CONCLUDING REMARKS**

My paper has reviewed several aspects of the history of the SRECs that I think have particular relevance for today's developing countries – agricultural research, extension and education (the Netherlands), agricultural co-ops (Denmark), industrial development (Belgium, Switzerland), SOEs and state investment funds (Austria), patents (the Netherlands, Switzerland), concentration of corporate power (Sweden, Denmark), and social and political divisions (Belgium, Switzerland, Finland, and Sweden). I could have also reviewed issues like public-private partnership (Sweden) and natural resource abundance (Norway, Finland, and Sweden), but I did not have the space to do that.

It is not easy to draw firm lessons from a wide range of countries, especially when there are some crucial information gaps. However, the following points may be made.

First of all, the history of the SRECs clearly shows that they did not develop because things were ‘easy’ for them. They started with many of the constraints that are supposedly holding today’s developing countries back – small size of the domestic market, ethnic divisions, religious divisions, ideological divisions, unpromising geography, history of internal conflicts, huge concentration of economic power, and even colonial history (Finland and, to a lesser extent, Belgium). Of course this is not to deny that many of today’s developing countries are labouring under even less favourable conditions – more brutal colonial history, often less promising geographical conditions, and the much bigger technological gap that now exists in relation to the ‘frontier’ countries. However, the history of the SRECs reminds us that successful countries develop *despite* poor initial conditions. To paraphrase Karl Marx, it is humans that make history, although not in the context of their own choosing.

Second, the history of the SRECs shows us the importance of public policy intervention in promoting development. In many countries, effective state intervention was crucial in kick-starting and managing the developmental process. Important examples include: government support for agricultural research, extension, and education in the Netherlands; state ownership and investment subsidies in the post-WWII period in Austria; strict government control of FDI in Finland; encouragement of agricultural co-ops and support for export marketing by the Danish state; the deliberate tailoring of patent policy to national developmental needs in Switzerland. Of course, these experiences need to be studied more carefully, if we are to extract more practical lessons from them.

Third, while showing the importance of public policy intervention, the history of the SRECs also shows that successful public policy intervention needs pragmatism and flexibility. The Belgian state shifted between interventionism and liberalism across different periods, according to the prevailing needs of the economy. The Dutch government was willing to cede control (as least partially) over public initiatives in agriculture, while also taking over private initiatives (at least partially) when necessary. The Swedish and the Danish states, despite their generally social-democratic leanings, were pragmatic enough to work closely (perhaps too closely in some people’s opinion) with large business groups.

I hope this chapter has shown that there are lots of very interesting lessons that today’s developing countries can potentially draw from the SRECs. Needless to say, I am not an expert on any of the countries reviewed, so I could only scratch the surface. In some cases, I feel that I’ve mostly asked questions rather than giving

any useful answers. However, I hope I have at least drawn people's attention to some potentially useful issues that have not been noticed by outside circles (and certainly not among those who work on economic development). If some experts on these countries are prompted into looking into the issues raised here with a view to drawing more concrete lessons for today's developing countries, the purpose of the paper will have well been served.

## NOTES

- 1 I would like to thank the Wetenschappelijke Raad voor het Regeringsbeleid (WRR), the Scientific Council for Government Policy of the Netherlands, for its financial support for this research. I thank Robert Went for his very helpful comments on the first draft of the paper. I also thank Jan-Frederik Abeloos for his comments. The research was greatly helped by the linguistic as well as analytical skills of Francesca Reinhardt and Jesper Johnsen. Luba Fakhrutdinova and Joonhee Chung also provided valuable assistance.
- 2 On those rare occasions when the existence of these policies is acknowledged, it is argued that these countries have developed *despite*, rather than because of, these 'bad' policies, as they had other factors that more than cancelled out the costs from such policies. For example, Irwin (2004) argues that the US would have developed with or without high tariffs, because it had so many favourable factors for development, such as a large domestic market, abundant natural resources, influx of immigration. The problem with this argument is that the 'heterodox' packages have worked across countries with very different conditions, thus making it impossible to 'explain away' bad policies by invoking factors unique to each country.
- 3 They are, in alphabetical order, Bangladesh (144 million), Brazil (189 million), China (1.31 billion), Democratic Republic of Congo (58 million), Egypt (75 million), Ethiopia (73 million), Indonesia (223 million), Iran (69 million), Mexico (104 million), Nigeria (145 million), Pakistan (159 million), the Philippines (85 million), Thailand (65 million), Turkey (73 million), and Vietnam (84 million). The population figures are from the World Bank (2008), Table 1.
- 4 As of 2006, they are, in ascending order, Ghana (23 million), Uganda (30 million), Morocco (30 million), Algeria (33 million), Kenya (35 million), Sudan (37 million), Tanzania (39 million), South Africa (47 million), Democratic Republic of Congo (59 million), Ethiopia (73 million), Egypt (80 million), Nigeria (134 million). The population figures are from the World Bank (2008), Table 1.
- 5 [http://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_population\\_density](http://en.wikipedia.org/wiki/List_of_countries_by_population_density). This is not counting the Palestinian territories (6,020 km<sup>2</sup> of territories and population density of 667) and Puerto Rico (8,875 km<sup>2</sup> of territories and population density of 446), which are not fully independent states.
- 6 [http://southkorea.nlembassy.org/agriculture\\_korea](http://southkorea.nlembassy.org/agriculture_korea).
- 7 They ranged from breeding (separate institutes for arable crops and horticultural crops), poultry, animal (separate institutes for husbandry and health), engineering (separate institutes for agriculture and horticulture), storage and processing (separate institutes for agriculture and horticulture), forestry, soil mapping, water management, pesticide, food quality and safety, and so on
- 8 Actually, the Danish experience with co-ops was much studied in the 1930s in the English-speaking world, especially when the Americans were interested in the idea, but there is relatively little recent literature in English on it, and even fewer



that draw explicit lessons for today's developing countries.

9 According to the criteria we used above (no country smaller than Hong Kong in area, no colony), Belgium (at 341 persons per km<sup>2</sup>) is the 9<sup>th</sup> most densely populated country in the world, after the Comoros (357 persons per km<sup>2</sup>), Lebanon (344 persons per km<sup>2</sup>), and Rwanda (343 persons per km<sup>2</sup>). The data are from [http://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_population\\_density](http://en.wikipedia.org/wiki/List_of_countries_by_population_density).

10 In 2002, manufacturing value added per capita in 1995 US dollars was \$ 12,191 in Switzerland, \$ 9,851 in Japan, \$ 5,567 in the USA, \$ 359 in China, and \$ 78 in India. See UNIDO (2005), *Industrial Development Report 2005* (United Nations Industrial Development Organization, Vienna), Table A2.1.

11 For example, there is a book by Barbara Schleicher in German, called *Heisses Eisen: zur Unternehmenspolitik der Österreichisch-Alpine Montangesellschaft in den Jahren, 1918-1933* (Hot Iron: on the Corporate Policy of the Austrian Alpine Montan Cooperative during 1918-1933) (P. Lang, Frankfurt am Main, 1999).

12 The 16 countries are, in alphabetical order, Australia, Austria, Belgium, Canada, Denmark, France, Finland, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, West Germany, the UK, and the USA.

13 Despite the massive external shock that it received following the collapse of the Soviet Union, which accounted for over one-third of its international trade, Finland ranked a very respectable joint-5<sup>th</sup> among the 16 countries in terms of per capita income growth during the 1990s. According to the World Bank data, its annual per capita income growth rate during 1990-99 was 2.1 per cent (equal to the Netherlands), exceeded only by Norway (3.2%), Australia (2.6%), and Denmark and the USA (2.4%).

14 From the 12<sup>th</sup> century until 1809, Finland was part of Sweden; thereafter it existed as an autonomous Grand Duchy within the Russian empire until 1917.

15 Interestingly, the Finnish government's investment-promotion agency, Invest in Finland, emphasizes that "Finland does not 'positively' discriminate in favour of foreign-owned firms by giving them tax holidays or other subsidies not available to other firms in the economy" (the same website, p. 2).

16 This shows how the Dutch during that period were much more consistent than free-trade economists of today, most of whom do not see any contradiction between their advocacy of unrestrained competition for trade in goods and services but socially regulated monopoly for trade in ideas.

17 The information on the Belgian ethno-linguistic make-up is from <http://en.wikipedia.org/wiki/Belgium>.

18 The information on the Swiss ethno-linguistic make-up is from <http://en.wikipedia.org/wiki/Switzerland>.

19 The information on the Swiss religious make-up is from <http://en.wikipedia.org/wiki/Switzerland>.

20 Some liberal Catholic cantons such as Ticino and Solothurn did not participate.

21 The information on the Swedish ethno-linguistic make-up is from <http://en.wikipedia.org/wiki/Sweden>.

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## 5 STAGNATION IN AFRICA: DISENTANGLING FIGURES, FACTS AND FICTION

*Paul Hoebink*

The pile of books on Africa on my desk is growing quickly. The titles are alarming. Africa is being described as “A shackled continent” and its development is termed “stalled”. Some titles are more neutral, like “The State of Africa”, but others clearly point at failure: “The Trouble with Africa: Why Foreign Aid Isn’t Working”. They suggest that Africa is back in the 1980s where book titles were even more dramatic: “A Year in the Death of Africa” and “Africa in Crisis”. Those were the years of hunger and starvation; in the new millennium Africa seems to be the continent of stagnation.<sup>1</sup>

Stagnation in Africa is also in the centre of international debate. Tony Blair, then prime minister of the UK, called together a Commission for Africa, which produced a report in 2005 under the title “Our Common Interest”, with clear reference to the titles of other famous international reports like “Common Crisis” (the second Brandt Commission report) and “Our Common Future” (the Brundtland Report). It is not surprising that at the subsequent G8 Summit in Gleneagles that year, Blair and his Minister of Finance Gordon Brown put Africa high on the agenda. It ended in a promise of an extra \$ 25 billion per year of foreign aid to Africa in 2010, with total official development assistance rising from about \$ 100 billion to \$ 150 billion. Recent OECD and UN reports, however, assessed that in particular the G8 countries were falling short of their promises.<sup>2</sup>

Where Africa was the continent of drought, starvation and refugee camps in the 1970s and 1980s, it seems now to be the continent of little or no progress in development and of failed international efforts to get it out of poverty traps. Africa is compared with Asia, and to demonstrate the differences between the two continents, the Ghana-Korea equation or Zambia-Korea has become very popular. At the end of the 1950s, the national incomes of Ghana, Zambia and Korea were more or less equal, but by the end of the 1980s or 1990s there was a huge gap between the countries in the two continents.<sup>3</sup> As I will try to show in this article, this comparison is one between a steel factory and a cocoa farm. The income between these countries might have been more or less equal; the composition was totally different, as were the social indicators. In this article we will investigate stagnation in Africa, starting with the question, “Is there stagnation in Africa and where can we see it?”, and then we will try to examine the most probable causes for this stagnation, to disentangle the figures and the facts from the fiction, to see where Africa stands in the era of globalization. We will also have a brief look at the development policies of the main donors, to see what changes took place and how donors reacted to the ‘African crisis’.

It is important to stress right at the beginning, as Alex Thomson (2004: 3) does, that Africa is not homogeneous, and there are huge differences in surface, population, ethnical diversity, colonial rule, income and political history between the 53 independent states. In surface area, France fits twice in Niger and Italy three times in Mali. But Guinea Bissau is the size of the Netherlands, and the Comoros and Mauritius are smaller than Luxembourg. Nigeria has 129 million inhabitants, Djibouti 480,000. Population density in Rwanda is 280 per km<sup>2</sup>, in Niger it is 7.1 per km<sup>2</sup>. Oil-rich Gabon has a per capita income of \$ 14,000, Burundi \$ 372. Angola has three large ethnic-cultural groups and at least 7 other ethnic groups. Tanzania has more than 120 ethnic cultural groups, of which nine have more than a million members. Chad has more than 200 distinct ethnic groups, and more than 100 languages and dialects are spoken in Chad alongside the official languages of French and Arabic. In short, African countries differ from each other at least as much as European countries. Still there is a tendency to consider at least sub-Saharan Africa as one entity with the same traits, waiving away the differences. In this article we shall try as much as possible to see the differences in social and economic development between the African countries.

## 5.1 STAGNATION IN SUB-SAHARAN AFRICA

It is clear that growth rates in East Asia have been much larger over time than those in sub-Saharan Africa. But it has to be stressed that growth rates in the 1960s and part of the 1970s in most African countries were not that low and better than those in South Asia. South Asian growth started to rise only in the 1980s and just recently reached the peaks of East Asia. What is also clear is that in terms of economic development, sub-Saharan Africa saw two decades of stagnation in the 1980s and the 1990s. Economic growth was only 1.7 per cent per annum in the 1980s and only 2.1 per cent on average over the two decades. Only since 2004 have growth rates reached higher levels, 5.8 and 6.3 per cent for the whole region. This means that between 2006 and 2008, sub-Saharan Africa has been growing faster than Latin America.

This stagnation is in particular seen in the agricultural sector – especially important for Africa. Agricultural growth in developing countries has been considerable, particularly in East Asia. Sub-Saharan Africa also showed significant growth of 3 per cent per year in the last 25 years, but per capita growth has only been 0.9 per cent and this is considerably lower than in East Asia and Latin America. We have to acknowledge, however, that a few countries, like Sudan, Mozambique and South Africa, did remarkably better in agricultural production than others which had zero to negative growth due to economic crises and civil wars.

Looking more specifically at per country growth rates, the first thing to be observed is the high volatility of growth rates. Even in politically stable countries,

**Table 5.1** Economic growth of developing countries (percentage change of real GDP from previous year)

Region	1960-1980	1980-1990	1980-200	2006	2007	2008
Sub-Saharan Africa	4.3	1.7	2.1	5.8	6.1	6.3
East Asia	5.6	10.2	8.0	9.7	10.5	8.6
South Asia	3.7	5.6	5.4	9.0	8.2	6.6
Latin America	5.5	3.2	2.2	5.6	5.7	4.5
All developing countries	6.2	2.9	3.3	7.6	7.8	6.5

Source: The World Bank, *Global Development Finance*. Washington, several years.

economic growth might float between nearly negative in one year to highly positive in the next year. What we have seen since 2002 is that some oil producers like Chad or Angola have profited from the hike in oil prices, but the effects are rather limited for other oil producers like Gabon, Nigeria and Sudan. Zambia and other mineral producers like Niger and Namibia show highly fluctuating growth. Countries that do depend on agricultural exports with stable governments like Mozambique, Tanzania and Uganda are doing much better in the last ten years, with much lower fluctuations in economic growth. It shows that African countries are still extremely dependent on the world market of one or two products. We will come back to that below.

**Table 5.2** Economic growth of some selected African countries (percentage change of real GDP from previous year)

Country	1999	2002	2004	2006	2007	2008
Angola	3.2	14.5	11.2	18.6	19.8	11.5
Burkina Faso	6.2	1.7	4.6	6.1	4.3	4.7
Cape Verde	11.9	5.3	4.4	10.8	6.6	7.6
Chad	-0.5	8.5	33.7	0.2	-0.3	3.2
Ghana	4.4	4.5	5.6	6.2	6.0	6.0
Mali	5.7	4.2	2.3	5.3	4.2	4.7
Mozambique	7.5	8.2	7.5	8.0	7.2	7.0
Nigeria	1.5	1.5	6.0	5.6	3.2	6.2
Niger	1.0	5.3	-0.8	4.8	5.0	4.7
Tanzania	4.8	7.2	7.8	6.7	6.6	6.5
Uganda	8.2	6.4	5.4	6.8	5.1	6.0
Zambia	2.2	3.4	5.4	6.2	5.8	6.3
Zimbabwe	-3.6	-4.4	-3.8	-4.8	-6.2	-4.5

Source: OECD/African Development Bank, *African Development Report 2008*, Paris: OECD.

The picture changes again if we look at indicators for social development. The Human Development Index, designed by Mabub Ul Haq and now the subject of an annual UNDP report, comprises life expectancy, adult literacy and enrolment in schools, and GDP per capita; for many African states it shows signs of progress over the years. Notable exceptions, because of severe slowdowns in the economy and the AIDS pandemic, are Zambia and Zimbabwe. But countries like Burkina Faso and Mali which come from the bottom ranks in human development are slowly and gradually improving (see Table 5.3).

Most probably the best indicator of social progress is life expectancy. Most aspects contributing to a better life – food, health, education – are expressed in longevity. Due to civil wars and HIV/AIDS, some African countries are showing a reduction in life expectancy, in particular Congo and Rwanda, but most notably in Zambia, Zimbabwe and (the economic and political success story) Botswana.<sup>4</sup> But twice as many countries, like Senegal and Gambia,<sup>5</sup> show good progress on this important social indicator. In life expectancy sub-Saharan Africa went from 46.1 years to 49.1 years between 1975 and 2005, and while that is not much, without the AIDS pandemic, as the particular example of Botswana shows, progress would have been tripled.

Also regarding adult literacy and in particular school enrolment we see great progress in the last few years in particular. In Tanzania, for example, adult literacy went up from 59.1 per cent in the 1990s to 69.4 per cent in 2005, and school enrolment from 49 per cent in 1991 to 91 per cent in 2005. Similar progress can be seen in Malawi and Uganda, and with lower figures in Senegal, Mali and Burkina Faso.<sup>6</sup> The under-five mortality rate, considered an important indicator for progress in children's health and welfare, has been reduced in sub-Saharan Africa from 243 per 1,000 in 1970 to 160 in 2006, even given slow progress in the 1980s.<sup>7</sup>

Of course, all these nice figures on social progress cannot hide the fact that the countries of sub-Saharan Africa are still on the bottom of the lists of all indicators of social development. Of the 177 countries listed in the Human Development Index, the bottom 35 are from sub-Saharan Africa. According to World Bank estimates, the number of people living on \$ 1 dollar a day or less did grow from 161 million to 303 million in sub-Saharan Africa in the two decades between 1981 and 2001. And their share of the population grew from 41.6 per cent to 44.0. At the same time East Asia saw an enormous decline (from 57.7 per cent to 11.6%), but Latin America had only a small reduction, and the Europe/Central Asia region saw a clear rise in poverty.<sup>8</sup> UNCTAD estimates are even more negative, indicating that the proportion of the population living on less than US\$ 1 a day in the least developed countries of Africa has increased continuously since 1965-1969, rising from an



**Table 5.3 Trends in human development for some selected African countries**

Country	1975	1980	1990	1995	2000	2005
Angola	....	....	....	....	....	0.446
Burkina Faso	0.256	0.277	0.308	0.312	0.330	0.370
Cape Verde	....	....	0.628	0.679	0.711	0.736
Chad	0.269	0.272	0.335	0.344	0.357	0.388
Ghana	0.438	0.467	0.511	0.531	0.555	0.553
Mali	0.232	0.258	0.285	0.309	0.332	0.380
Mozambique	....	0.302	0.316	0.330	0.364	0.384
Nigeria	0.317	0.376	0.407	0.419	0.433	0.470
Niger	0.234	0.250	0.246	0.254	0.268	0.311
Tanzania	....	....	0.437	0.423	0.420	0.467
Uganda	....	....	0.411	0.413	0.474	0.505
Zambia	0.470	0.477	0.464	0.425	0.409	0.434
Zimbabwe	0.548	0.576	0.639	0.591	0.525	0.513
For reference:						
Indonesia	0.469	0.532	0.626	0.665	0.682	0.728

Source: UNDP, *Human Development Report*, New York, several years.

average of 55.8 per cent in those years to 64.9 per cent in 1995-1999 (UNCTAD 2002).

## 5.2 THE LOW SOCIAL DEVELOPMENT CAUSE

If we are trying to look for causes of the differences in progress between sub-Saharan Africa and Asia, the low level of social development in health and education is the first cause that springs to mind. The starting positions of East Asia and sub-Saharan Africa were totally different. There are important differences in social development between sub-Saharan Africa and East and South Asia, not only now, but already at the time of independence in the 1950s, 1960s and 1970s. The figures of life expectancy are very indicative: they were 14 to 15 years higher in East and South Asia in 1970 than in sub-Saharan Africa (see Table 5.4). This corresponds to great differences in human health and health care, as well as nutrition and education between the regions.

Also on other social indicators there are big gaps between sub-Saharan Africa at the start of independence in the 1960s and other developing countries. Primary school enrolment stood in 1960 at 5 and 7 per cent respectively in Ethiopia and Mali and around 25 per cent in East-African countries, whereas it was close to 100 per cent in East Asia. While there were some sub-Saharan African countries

**Table 5.4** Differences in social development between East and South Asia and sub-Saharan Africa

Region	Life Expectancy		Adult literacy		Youth Literacy	
	(years)		(per cent)		(per cent aged 15-24)	
	1970	2005	1985	2005	1985	2005
Sub-Saharan Africa	46.0	49.1	54.2	59.3	54.2	59.3
South Asia	50.3	60.9	47.6	59.7	47.6	59.7
East Asia	60.6	71.1	...	90.7	...	97.8
World	58.3	66.0	76.4	82.4	83.5	86.5

Source: UNDP, *Human Development Report*, New York, several years.

(Ghana, Malawi, Congo) with enrolment figures of around 60 per cent for primary education, enrolment in secondary education stood typically at 2-3 per cent for Africa as a whole, and enrolment in tertiary education was below 0.5 per cent. For the Philippines these figures were 26 per cent and 13 per cent. And even in India, which had a primary school enrolment in those days of only 41 per cent, enrolment in secondary and tertiary education stood at 23 per cent and 2 per cent.<sup>9</sup>

Literacy presents more or less the same picture, but also shows the progress that has been made in sub-Saharan Africa. In 1970 literacy rates stood at 27.8 per cent in sub-Saharan Africa, while in East Asia it was more than double at 57.5 per cent. Literacy subsequently increased from 37.8 per cent in 1980 to 49.9 per cent in 1990 and 59.7 per cent in 2000-2004, and that is better than South and West Asia. In Latin America and East Asia literacy was around 90 per cent in 2000.<sup>10</sup>

This colonial heritage in education could also be found in limited educational spending and in allowing a parallel education system. The British colonial authorities in Tanganyika spent about 1 per cent of their revenues on education at the beginning of the 1920s, and twenty years later it was less than 5 per cent. In Tanganyika the deliberate policy was to have three parallel education systems: one for Europeans, one for Asians and one for Africans (Coulson 1982: 84-85). In the African system there was also a special school for children of chiefs. At independence there were 28 Africans working in academic professions in Tanzania, mostly physicians and some veterinarians. At that time only fifteen Tanzanians had graduated from Makerere College in Uganda, and when Dar es Salaam University College opened eight weeks before independence in 1961, it started with fourteen students.<sup>11</sup>

Tanzania was not an exception. In the French colonies Africans could receive the status of “*assimilé*” when they adopted the French language and culture, a system copied by the Portuguese in their African colonies.<sup>12</sup> In the French colonies these “*assimilés*” could even be elected to the French parliament, the “*Assemblée*

Nationale". Less than 1.0 per cent of the population of French West Africa was able to obtain that status. In Angola the number of "assimilados" was about 1.5 per cent, but in Mozambique it was less than 0.5 per cent. Before the Second World War only 12 black students from West Africa obtained university degrees.<sup>13</sup> Belgian colonialism did even worse: at independence only 17 Congolese had university degrees.<sup>14</sup> Not to forget: the same type of segregation could be seen not only in Tanzania but also in other African countries, in the health system.<sup>15</sup>

The impact of this low social development should not be underestimated. It reflects itself in all parts of society. It could be seen in market parties with "very limited entrepreneurial heritages" (Acharya 1981: 115). It can be seen in civil society, which is generally described as being weak in sub-Saharan Africa (Michael 2004; Howell and Pearce 2002; Chabal and Daloz 1999). It can also be observed in state capacity: how to rule a country after independence with only a few academics and people with leadership capacities at hand? The low educational level could also be found in education itself, where after independence foreign (old colonial) staff was heavily needed in the universities.

### 5.3 THE NOT-A-NATION-STATE CAUSE

Most sub-Saharan African states are not a nation. They are colonial constructs, created by the coincidence of colonial occupation in the "scramble for Africa" at the end of the 19<sup>th</sup> century and arbitrary new divisions and creations in the decolonization process of the 1950s, 1960s and 1970s of the last century. In half a generation Africa was "sliced up as a cake" between five rival European nations and King Leopold II, adding 10 million square miles and "110 million dazed new subjects" to Europe (Pakenham 1991). Decolonization took much longer, more than 40 years between the independence of Libya (1951) and that of Namibia (1990) and Eritrea (1993).

Whether it was under the direct rule of the French or the indirect rule of the British, it is a fact that all colonizers had to rule over multi-ethnic colonial entities, and they used the ethnic divide as an instrument in colonial rule. What is also a fact of history is that there were differences between the colonizers: smaller (Belgium) and less-developed colonial nations (Portugal) were more inclined to cling to colonial rule, to be more brutal and to prepare less for independence than the UK.<sup>16</sup> Others, like France, kept close control by placing French technical advisors in all the strategic ministries after independence. But it is another fact that they all used ethnic minorities in their colonial armies, administration and plantations as sergeants and supervisors, administrators and slave drivers.

Of course, ethnic division and imperial wars existed in pre-colonial Africa also. There were kings like Mwene Mutapa, the "lord of the ransacked lands". Slavery for the conquered existed on a limited scale also in these ages. Uneven develop-

ment was seen in pre-colonial Africa with gatherer-hunters like the Khoisan in present-day Namibia and Bozo fishermen at the borders of the Niger in Mali on the one side, and Ethiopian and Shona Kingdoms with all their wealth, in isolation or with broad trade relations with coastal East Africa. But these were 'natural' stateless nations or 'natural' full states with huge armies and big courts and administrations.<sup>17</sup> The point then is that the colonial creations of African states are 'unnatural', they are in fact artificial nation-states, with a flag, a national hymn and a soccer team, but only a limited national identity even after 50 years of independence. If history had taken a different course, present-day Nigeria most probably would have been three nation-states, one of the Yoruba, one of the Ibo and one of the Hausa-Fulani (Arnold 2001: 22-23). In terms of ethnicity, language and religion this would have been a 'European solution', an imitation of the way most European states were formed, most recently in the Balkans. And what is more, by using ethnic divisions in its colonial rule, using some of the ruled to rule over the other ruled,<sup>18</sup> colonialism also became the birthplace of strong ethnic tensions after independence in many African countries.

Another inheritance of colonial times is the arbitrary boundaries, externally imposed with no concern for the populations. How arbitrary is often illustrated by a contested story about the border between Tanzania and Kenya. This border line follows a straight line and only at Moshi it takes a turn around Mount Kilimanjaro. It is said that this was not because of geographical reasons, but because Queen Victoria in 1886 gave it away to her grandson, the later emperor, Wilhem II.<sup>19</sup> Fact is that, for example, the border between Kenya and Uganda cuts across ten ethnic-cultural groups. The northern border of Angola crosses the lands of the Bakongo, the eastern border that of the Uvimbundu (or Ovimbundu) and the southern border that of the Herero and Ovambo.

This is not a matter of geography,<sup>20</sup> but deeply political. When ethnic identity is often closely related to cultural and religious identities and to national identity and when these identities vastly overlap, national identities in African states must by definition be weak. When ethnic identities prevail, it is clear that in the African context of a "highly complex set of ethno-linguistic configurations",<sup>21</sup> it is an almost impossible task to create a homogenous population with regard to their relation to the nation-state. In general, in most sub-Saharan Africa countries ethnic loyalties are much higher than loyalty to the nation-state. There are countries, like Zambia and Tanzania, where a national identity has been built by domestic policy debates and foreign policy initiatives, overcoming the ethnic divide. But on the other side of the spectrum, we have seen ethno-nationalism being used by many African political leaders, often ruthlessly, to gain and to cling to political power. Countries with many ethnic groups, like Tanzania, seemed to have been in a better position to overcome the ethnic divide than countries with a limited number of ethnicities, like Uganda or Nigeria.

## 5.4 THE DEPENDENCE ON RAW MATERIAL EXPORTS CAUSE

In one of the first books on African economic development, World Bank economist Andrew Kamarck indicated that African countries were involved much more in foreign trade than other developing countries. Per capita exports in sub-Saharan Africa were remarkably higher than those in Asia and Latin America, in particular some of the richer African countries, like Ghana and Ivory Coast. He concluded that economic growth in sub-Saharan Africa depended much more on foreign trade and that export was the only driver of economic development. At the same time there was a big danger in this dependency, what Kamarck called the “commodity problem” (Kamarck 1971: 93-96). With only a few exceptions, sub-Saharan Africa’s exports consisted (and consist) mainly of one or two agricultural raw materials and minerals. Dependency on primary products however, wrote Kamarck, complicates economic growth and makes it more difficult, because of the fluctuations in prices and total receipts, and because demand grows much more slowly than incomes in the industrialized countries. If incomes grew by 1 per cent in the developed world, the demand for African raw materials would expand only by 0.5-0.6 per cent. A raw material exporter is thus much less in a position to profit from growth in world consumption than a producer of industrial goods. Looking back 40 years since this analysis, one cannot but conclude that Kamarck’s analysis had unintended prophetic value and that we arrive here at a third cause for lack of progress and again an important difference between East Asia and sub-Saharan Africa.<sup>22</sup>

All sub-Saharan Africa countries, with the exception of Botswana, suffered a loss in their terms of trade in the 1980s. Annual losses varied between 0.3 per cent for Senegal and 11.5 per cent for Guinea Bissau. On average, the terms of trade in the two decades between 1975 and 1994 declined by 1 per cent annually for sub-Saharan Africa (Mshomba 2000: 142-143). This excludes again Botswana, but also Nigeria, which did a bit better in the 1970s, and South Africa, which saw its terms of trade grow between 1984 and 1994. Some 24 non-fuel commodities, all of importance for African exporters, declined by an average of 1 per cent a year between 1965 and 2004 (UNCTAD 2008a: 63). This decline continued in the 1990s. Coffee exports lost two-thirds of their value between 1995 and 2002; copper, cotton and sugar export prices were halved.

In 1975 coffee prices reached a peak of more than \$ 4 a pound. Since then coffee prices have been falling to reach an all-time low in 2001 of \$ 0.44. Between 1995 and 2001 alone, coffee prices fell by 68 per cent. Coffee prices at the beginning of this 21<sup>st</sup> century were only one-quarter of what they were in 1960. It is estimated that developing countries had an annual loss of \$ 7 billion because of the drop in coffee prices. At the brink of the new century, Ethiopia’s income from coffee was nearly halved in two years’ time, while Uganda lost 30 per cent in a year’s time.<sup>23</sup> The ills of market concentration in the industrialized countries are especially felt

by commodity exporters, limiting their possibilities to move up the scale of production, like in the case of coffee or the exemplary case of cocoa and chocolate (UNCTAD 2008a).

Cotton prices, of particular importance for some West African (Sahel) countries like Burkina Faso and Mali, were 52 per cent lower in the beginning of this 21<sup>st</sup> century than six years before. But, unlike coffee, this was mainly because of high subsidies to farmers, in particular in the US but also in the EU. It was calculated by the International Cotton Advisory Committee that cotton prices would rise by 75 per cent if these subsidies were abolished. More than 10 million farmers in these countries are dependent on income from cotton production, and cotton contributes between 30 per cent and 40 per cent to the export income of countries like Benin and Mali. Income losses were calculated at 9 per cent to 12 per cent annually.<sup>24</sup> Policy coherence (for development) – in particular in agricultural trade and agricultural policies – has, to say the least, not been the strongest aspect of European and American policies (Hoebink 2008). It is easy to imagine that with their dependence on primary commodities exports, this lack of coherence has hurt a series of African exporters the most.

It is clear that its comparative advantage is not getting African economies out of their stagnation. Diversification into other tropical agricultural products has been recommended by international organizations to African governments for many years, but has become a slogan of “doing more of the same”, not leading to more sophisticated exports, not contributing to a better competitive advantage. The jump in agricultural primary commodity prices between 2003 and 2007, in particular for coffee, maize and sugar, has stimulated growth in several African countries.<sup>25</sup> Mineral exporters profited even more when some prices, like copper, tripled or grew fourfold. But also in these years primary commodity prices were volatile. And the future might resemble what we saw from 1979 onwards: not only a decline in the prices of primary products, but also a decline in exported volumes, due to a decline in demand from the contracting industrialized economies. Primary commodities exporters are thus punished twice.

## 5.5 THE GREEDY POLITICIANS CAUSE

Colonial legacies, also after 35 or more years of independence still have their influence on African economies and societies today, as indicated above. But looking at stagnation and limited growth in Africa, they are only one side of the coin, one side of the complex set of causes which underlie this limited progress. The most popular explanation found in nearly all recent books on Africa with the alarming titles is that African political leaders after independence made a mess of what they inherited from the colonialists, and that the irresponsible behaviour of these politicians are the root cause for Africa’s miseries at the moment. In its worst

expressions these analyses come close to the prejudiced European views on Africa of the 19<sup>th</sup> and early 20<sup>th</sup> century, depicting African leaders as primitive or, more nicely, irrational. African leaders are seen as irresponsible either by embracing socialism and bringing their countries to bankruptcy or by stealing the little wealth that could be found in the coffers of their governments. Sometimes this whole process was described as an “Africanization” of colonial administrative and political structures, of embedding these ‘modern structures’ in patron-client networks, in relations of ethnic patronage.

Looking at recent African history, there is of course a grain of truth in this argument: who would deny the horrible acts of Emperor Bokassa or Idi Amin? They are – to stay away from a more horrific recent European past – as undeniable as the acts of emperors like Caligula or Nero. There is no denial either that greed and corruption have brought African states to bankruptcy, to disorder and civil war. In the Top 5 of the most corrupt politicians of the last two decades up to 2004, Transparency International included two African leaders, Mobutu and Abacha.<sup>26</sup> But at least four points should be added to this analysis of corrupt African leadership. First, there is the low level of social development that can also be found in the backgrounds of a series of these political leaders or dictators. If coups d’état are typically staged by generals in Asia, by colonels and generals in Latin America, then in Africa it is the sergeants, like Idi Amin (Uganda), Étienne Éyadéma (Togo) and Joseph Desiré Mobutu (Congo), with as an exception flight-commander Jerry Rawlings (Ghana).<sup>27</sup>

A second point, that is often overseen, is that in most African economies there were few economic alternatives for the rising black elite and middle class than the state. For economic entrepreneurship the margins were small, and those positions that could have brought economic opportunities were mostly already occupied, if not by whites then by Indians in East Africa or by Lebanese in some countries in West Africa. The only vehicle to gain standing and wealth thus is often the state, which then does not necessarily attract people with high ideals.

A third point is that none of these African leaders was governing and stealing in international isolation. Éyadéma had close links with Franz-Joseph Strauss, the ‘king’ of Bavaria; Mobutu came to power in a coup staged by the Belgian colonial army and the CIA<sup>28</sup> and was always the first African leader to visit American presidents like Ronald Reagan and George Bush Sr. and Jr.; Emperor Bokassa had close links with Giscard d’Estaing. Western powers had close links with many of these corrupt leaders, not least in mineral-rich African countries. In particular, the “*Françafrique*” and “*Foccartisme*”, the defence of French interests in Africa like the oil exploitation by ELF and Total, came under heavy criticism and investigation by the *Assemblée Nationale*.<sup>29</sup> Many African dictators were brought to power and pampered by Western powers, often with a Cold War excuse, but in general to defend mineral and other interests. In dependent economies like those in Africa,

rents were and are earned by collaboration with the colonial authorities and by diplomatic, military and economic external alliances after independence (Bayart et al. 1999: xvi).

In the last fifty years Africa has also seen a series of African leaders who were not corrupt and greedy and, as was the case with Julius Nyerere, tried to fight corruption by introducing a leadership code already at a very early stage.<sup>30</sup> This brings us to a fourth point, because despite this lack of corruption and the attempt to fight against it, African economies under the leadership of this type of leader did not develop that much better. This indicates that greed and corruption can only bring us a partial explanation of stagnation in Africa.

## 5.6 THE WEAK STATES AND WEAK POLICIES CAUSE

In his description of the troubled state of Africa at the beginning of the 1990s, the famous Africa historian Basil Davidson asks himself: “What explains this degradation from the hopes and freedoms of newly regained independence? How has this come about?” He continues by stating that “human blunders and corruption can supply some easy answers”, but that human failures “can seldom reveal the root of the matter” (Davidson 1992: 9-10). Davidson, like some other authors, then looks for causes in the relation between the “modern” African state institutions and old African ways of governing societies. He sees an alienation from the original rules of governing and from codes of conduct deriving from traditional African religions as one of the root causes for the “curse of the nation-state”. In adopting or accepting state structures and legislation of and from the colonisers, African leaders alienated themselves from their African past. It is said that Africa’s new tenants of power have no traditional culture of leadership and no leadership codes (Van der Veen 2002: 420), and the artificial democratic structures from the new constitution quickly vanished or were reformed to the will of the new leadership.

This rather romanticist<sup>31</sup> argument stands in nice contrast to those observers who see the root of evil in political leaders who brought in African “traditional values”, like ethnic patronage systems, to modern states structures and in that way shipwrecked systems of government that are in principle also well suited to modernize African societies. In their influential book on the African state and African politics, Chabal and Daloz conclude: “In most African countries, the state is no more than a décor, a pseudo-Western façade masking the realities of deeply personalized political relations” (Chabal and Daloz 1999: 16). If an institutionalization of state structures appears, it is “devoid of authority”. They not only regard African states as weak, but also as “vacuous” because central political power has not been emancipated from the overriding dominance of localized and personalized political contests (Chabal and Daloz 1999: 1). They stress that the logic of Western modernization does not fit in the African context and that Africa has its singular



experience of “modernization”. A course of modernization that is not easy to comprehend in existing paradigms and can best be explained by the instrumentalization of disorder: the boundaries of the political are not clear, which means that seemingly non-political issues might become politicised; politics are played out in often contradictory registers, e.g. rationality versus the occult; political causality in Africa might not be easily explained by the words and concepts we use to explain them (Chabal and Daloz 1999: 148-154).

It is rather easy to criticize this analysis, using their own words:

“It often seems that analysts are more concerned to find confirmation of their own theoretical or conceptual predilection than to seek to understand the realities of the structure of political power as they are in fact to be found in post-colonial African societies” (Chabal and Daloz 1999: 3).<sup>32</sup>

But I think that it is more important to keep two of their observations in mind. The first is that African state institutions are weak and strong at the same time. They are weak in policy implementation, but often strong in control over African societies. Second, it is very important to look behind the façades: what might look like ‘modern’ institutions are often very different ‘animals’, dressed in Western fashion. The other side of that coin is – and that is what authors like Chabal and Daloz seem to ignore – that these institutions are also ‘modern’ or ‘Western’, that there is an ideology of citizenship, of efficiency and effectiveness that surrounds them and has its own influence, that is not fully dominated by patronage and ethnic networks. This is because many of the civil servants populating these institutions are trained in ‘Western’ schools and universities.

But of course patronage and clientelism have their influence. Even public sector reform, privatization and market reform, pushed by the IMF and the World Bank, have been subjugated to the whims and patronage of the ruling elites, as several authors conclude (Tangri 1999). Private sector development and privatization have been primarily subject to the political interests of those in state power. Lately, the role of a free press has been growing and also that of an independent judiciary, thus checking corruption and abuse of state funds and capacities, but developments are uneven, and in many countries the politics of patronage are still prevalent. Analyzed in this way, it could be argued that African political elites misused the ‘wise’ and ‘realistic’ policy advice they received from the IMF and the World Bank in the 1980s and 1990s.

## 5.7 THE WASHINGTON CONSENSUS CAUSE

“Structural adjustment emerged as the primary Western response to the African debt crisis” is most probably an overstated conclusion.<sup>33</sup> The fact is that the auster-

ity programmes imposed by the IMF and the World Bank were felt most deeply in sub-Saharan Africa. African debts went from \$ 6 billion in 1970 to \$ 80 billion in the mid-1980s and, despite structural adjustment, climbed further to \$ 112 billion at the end of the 1980s. Because African governments could not fulfil the obligations of these debts by paying interest and repayments, they had to look for restructuring of these debts or for debt forgiveness. Western and multilateral donors would only allow this on a set of conditions, a conditionality that would be labeled as “structural adjustment”. From the mid-1970s or at least from the beginning of the 1980s most African governments stood under the surveillance of the IMF and the World Bank, under what has been dubbed by John Williamson “the Washington consensus”.

In a recent book Howard Stein traces back the roots of the structural adjustment policy in Africa, focusing on how economists became hegemonic in the World Bank.<sup>34</sup> He states that from its inception, these policy measures or structural adjustment packages assumed that growth and development would arise from the stabilization, liberalization and privatization of economies.

Stein argues that the major reason why stabilization became a core policy in bilateral and multilateral official lending had less to do with the IMF and more to do with changes in the World Bank (Stein 2008: Ch.2). During the 1950s and 1960s, the Bank as a relatively small institution primarily lent funds for infrastructure. But under the presidency of Robert McNamara (1968-1982), the World Bank expanded quickly and became more concerned with ‘redistribution’, through rural development projects in particular. There was quite some concern among the economists in the Bank that too much of the economic growth would be sacrificed for consumption, as Ayers (1983) also argued. Ayers, however, places the change in Bank policies under the umbrella of the new Reagan administration and the appointment of the conservative Clausen as World Bank president.

Stein sees the appointment of Ernest Stern in July 1978 as the Bank’s vice-president in charge of operations and chair of the loan committee as the beginning of this change (Stein 2008: 31). Another “very conservative” economist, Anne Krueger, became chief economist for the Bank in 1982. The second oil shock raised the need for balance of payments support wrapped with strings of conditionality. McNamara, according to Stein, saw the opportunity to increase lending and the profile of the Bank, while Stern saw an opportunity to promote his new policy framework. Stern commissioned Elliot Berg, an economist at the University of Michigan and expert on Sahelian countries, to write a report on Africa’s problems to provide him with a justification for the new policies. The Berg report *Accelerated Development in sub-Saharan Africa* (1981), blamed the weakness of African industry on the countries’ bias against exports and the incentive systems created by state-imposed trade, exchange rate and price interventions. It also blamed state

intervention for a bias against agriculture since it lowered the internal terms of trade, creating a disincentive to producers. The report almost entirely ignored, as several authors commented, the underlying structural causes of African economic weaknesses, like its dependency on primary products exports.

*Accelerated Development*, argues Ake, came to be regarded by African leaders not as an independent view of an impartial referee, but as a highly “political and ideological document masked as economics”. To these leaders the issues were misleading, the agenda was wrong, and the solutions were irrelevant. A paper analyzing the report and adopted by UNECA, the AfDB and the OAU found it “analytically defective, disingenuous and contradictory to African interests” (Ake 1996: 24-25).

Ravenhill concludes that the World Bank placed “the primary blame on the performance of African governments and heavily discounted the role of exogenous factors such as the deterioration in the terms of trade”. On the other hand, the Organization of African Unity’s *Lagos Plan of Action* had, as Ravenhill emphasizes, a typical “dependency” approach, seeing the malaise in Africa’s economies as part of the colonial legacy of exploitation and an integration in the world economic system on unequal terms. In that way the Berg report can be seen as an antidote to the external orientation of the OAU’s visions.<sup>35</sup> But then at least, the antidote as it was presented by the Bank was technocratic and seemed to presuppose that adjustment and policy change would be painless and would not meet with resistance from elites faring well on unrealistic exchange rates or urban dwellers faced with rises in food and urban transport prices (Ravenhill 1986: 2-5).

The World Bank’s follow-up report *Toward Sustained Development in sub-Saharan Africa* (1984) is seen by some as more balanced and showing greater awareness of both external and internal constraints, but in the policy prescriptions it showed little changes. Or, as Berg himself stated, “many of the general arguments of the report reflect the conventional technocratic wisdom as observable in country economic reports, sector analyses, and project appraisals of the World Bank”.<sup>36</sup> But again, as the *Accelerated Development* report, it stood alone in its empirical approach, based on large data-sets and its overview of articulated policy proposals. As such, both reports were much more easily embraced by the international donor community than the longer-term, rather vague as well as radically different proposals of the OAU. The intellectual superiority of the Bank vis-à-vis not only African governments but also the donor community, as it evolved in the McNamara years, was clearly visible in the adoption of these Africa strategies in the 1980s.

The Bank also overtook the IMF in its change from project lending to lending for structural adjustment programmes. As Stein (2008) indicates, between 1980 and 1983, the net flow of IMF loans to sub-Saharan African countries reached \$ 4.4 billion; from the World Bank this was only \$ 2.83 billion. But by 1983, it was clear

that the economic crises on the continent were not resolved and that pending repayments to the IMF would threaten the sustainability of the new strategy. The World Bank made a major financial and intellectual commitment to adjustment, which also allowed the IMF to be repaid. Between 1984 and 1987 the Bank loaned \$ 4.7 billion at the same time as the IMF took out \$ 3.22 billion. With these new funds, and strong reassertion of the importance of adjustment, the Bank rapidly filled in for the Fund, to perpetuate the reform agenda. Its commitment to structural adjustment went from \$ 0.9 billion from 1980-83 or 13 per cent of the total to the region to \$ 3.3 billion or 36 per cent of the total in 1984-87. Other bilateral donors got on board. Japan, for example, was committing 25 per cent of their aid to Africa for structural adjustment by 1990.

In retrospect, structural adjustment became a major failure and one of the major causes of stagnation in Sub-Sahara Africa in the 1980s and 1990s. Structural adjustment, the 'Washington Consensus', increased poverty at the same time that East Asian countries, following a totally different economic route, were growing and reducing poverty. With its emphasis on de-investing, on high interest rates, on ignoring the social sectors, the IMF and the World Bank, supported by the wider donor community, directed Africa to routes that enhanced underdevelopment and poverty, that only accumulated Africa's debt burden. In that sense all the programme aid of the 1980s and 1990s only helped Africa to survive through the economic downturn, but finally at a cost of a debt burden that at least doubled or tripled, despite debt forgiveness by most Western bilateral donors. It is easy to conclude with Stein that the World Bank, let alone the IMF, "never once fundamentally questioned their role in this outcome" (Stein 2008: 252). We could add that bilateral donors also did not evaluate their role in sub-Saharan Africa in those years. In general, they shared the ideas of the World Bank and the IMF and followed their policies uncritically,<sup>37</sup> or they did not have the intellectual capacity to present convincing counter-arguments. In fact, they financed structural adjustment programmes to a major extent, since the IMF always has little money on offer and since the contribution of the World Bank never reaches the volumes of the EU and its member states.

There are of course other explanations.<sup>38</sup> In his review of public sector reform in Africa, Tangri (1999) concludes that reform and privatization tended to be slow, since they were initiated by the IMF and the World Bank and supported by Western donors in the beginning of the 1980s. Policy packages across Africa have been similar, "seeking essentially to reduce the role of the state and as well as to enlarge the scope of the private sector". The similarity of the programmes demonstrates that "they have been largely initiated by external actors" (Tangri 1999: 147). Over time there has been very little 'ownership' of these programmes and, despite claims of the IMF and the World Bank to the contrary, they have never been 'home-grown'. They have never been supported by local politicians, trade unions

and other social movements or African civil society. Neither have these organizations participated in the formulation of these structural adjustment programmes.

On the other hand, the World Bank and the IMF had, according to several authors, very little influence on the implementation of the structural adjustment programmes. Tangri (1999: 54-61) presents the example of privatization in Kenya and Uganda to show that the IMF and the World Bank even turned a blind eye to the way Kenyan and Ugandan politicians used privatization to enrich themselves or their cronies. The pace of privatization seems to have been more important to the two Washington-based institutions than the fact that the buyers of state enterprises received all kinds of 'sweeteners', in particular lengthy pay-off periods in times of high inflation, which gave them the enterprises at a bargain price. Van de Walle in his extensive overview of structural adjustment in Africa states that structural adjustment programmes "have rarely been fully implemented" and thus cannot be blamed for Africa's poor economic performance (Van de Walle 2001: ch.2). The point here is that externally imposed programmes did not need to be fully implemented as they did not show the directions policies should take and did take.

## 5.8 OTHER TRAPS AND CURSES

Are there other traps and curses in which sub-Saharan African countries are caught and that are root causes for slow economic and social progress in sub-Saharan Africa? In his book on *The Bottom Billion* Paul Collier (2007) discovers four of them: 1. they are in civil war, 2. they have abundant natural resources which lead to greed, 3. they are landlocked countries with bad neighbours, and 4. they are badly governed. We have dealt with the fourth one, and it is obvious that some, but not all by far, African countries are trapped in the first one.<sup>39</sup>

My problem with Collier's analysis starts with the natural resources trap. Is there a natural resources trap if we look at Norway, Canada, the Emirates or even Dubai? Of course not, it becomes a trap, as Paul Collier also indicates, when the resources fall in the hands of greedy politicians and that phenomenon is not limited to resource-rich countries. This is caused by resource rents, and was also no Dutch disease trap.<sup>40</sup> So what we might see here in sub-Saharan Africa is not a natural resources curse or trap but – with reference to Bayart (1993) and Chabal and Daloz (1999) – a robber baron's or a kleptocrat's trap, as we have indicated above.<sup>41</sup>

A much more important 'trap' is poor infrastructure, more important even than being landlocked. There are ten landlocked African countries with poor neighbours and another four bordering on South Africa. In general, we cannot conclude that they do better or worse than the coastal states. What certainly forms a very special problem is their infrastructure connections with these coastal neighbours,

but that is the same problem that interior provinces or districts of the coastal states also have. Poor infrastructure is a general problem in sub-Saharan Africa, increasing transaction costs and making products less competitive.

A last cause or curse that is often presented in the recent literature is the “aid dependency trap”. Many sub-Saharan Africa countries, with the exception of some resource-rich countries, are heavily dependent on foreign aid for government investments, for technology and knowledge, for capacity building. It is argued that this aid dependency fosters corruption, but the arguments and analysis are not convincing.<sup>42</sup> In the past, countries like South Korea and Taiwan were heavily dependent on aid, much more so than most African countries are now.<sup>43</sup> Aid in itself does not corrupt; however, the way it is given and its conditionality might ‘enslave’ politicians and institutions.

If we could present the history of aid to Africa in three lines, we might say that development cooperation was dominated by tied aid in the 1960s and 1970s, leading to a wide range of “white elephants”.<sup>44</sup> The 1980s and 1990s were characterized by programme aid in line with structural adjustment programmes, just keeping African countries alive. In the new century new aid instruments have been introduced, like general budget support and sector-wide approaches, under the banners of poverty reduction and the MDGs of the Paris Agenda with its emphasis on “ownership”, coordination and task division. In fact, in recent years we are seeing a ‘silent revolution’ in development cooperation. Lip service to the idea of ‘aid recipient in the driver’s seat’ and to coordination and task division has been heard for nearly 20 years. These days we see it practised from Accra to Dar es Salaam.<sup>45</sup>

The famous Dutch parliamentarian Ayaan Hirsi Ali, for a few weeks spokeswoman on development cooperation for the conservative liberal party, stated in parliament: “If we observe the situation in sub-Saharan Africa ten, twenty and thirty years ago, and compare it with the present situation, we can speak of stagnation or decline. I quote again the book of Roel van der Veen. The development assistance as it was given has not been effective.”<sup>46</sup> It is a typical quote of a conservative politician these days. Of course we can explain that there is no stagnation in some fronts in sub-Saharan Africa and that where we see progress (in the social sectors), it has often been funded by development assistance. But the only right answer is that the politician in question believes in miracles and magic.<sup>47</sup>

Whoever expects development assistance, in particular looking at the small per capita volumes, to finance progress against the economic tide greatly overestimates its potential. What aid has been doing in effect in the 25 years of recession and structural adjustment between 1979 and 2004 is paying for the survival of sub-Saharan Africa. The potential of aid that is untied and coordinated can be

judged better from the progress in health and education in recent years in countries like Zambia, Uganda and Tanzania.<sup>48</sup> It means that aid can help, if there is a real intention to help, when African governments give it the possibility to help and when the global economies don't "mislead".

## 5.9 CONCLUSIONS AND CONSEQUENCES

Since the beginning of this century, a series of African countries have shown real progress in economic growth rates and social development. This was certainly stimulated by the rise in prices for primary commodities in the world markets, as a result mainly of the formidable economic expansion of China. It remains to be seen whether this growth in countries like Tanzania and Mozambique will be sustained in the new recession with falling export prices and export volumes. Although sub-Saharan Africa has made little economic progress in the 1980s and 1990s, it has not been stagnating. There was social progress, in particular in countries which were not hit by civil wars or the HIV/AIDS pandemic. The reasons for slow economic progress cannot simply be reduced to corrupt and destructive African leaders and the failure of development assistance, as seems to be very popular in most of the recent publications on Africa. The reasons are, as we tried to describe, much more complex.

Guy Arnold (2001) rightly observes: "Much of Africa's political and economic history since 1960 has been a matter of coming to terms with the legacies left behind by colonialism". And he adds: "These include language, religion, administration, military traditions, trade patterns, and a residual dependence that is most apparent in the aid relationship". I have tried to sum this up in a different way. In social terms, colonialism left Africa with extremely low levels of social development, in particular compared with (East) Asia. The low levels of education in particular have had a severe influence on the administrative and political capacities. If the aid relationship between African governments and its donors differs so much from those prevailing in Asia, the roots for this can certainly be found in the capacities of African ministries and other government bodies. Capacities to come up with their own realistic programmes and negotiating capacity to convince donors to support them.

The political legacy of colonialism has certainly been very negative and destructive, leading to civil wars and tens of thousands of deaths. African countries are only very gradually becoming the nation-states that they certainly were not at the time of independence. Artificial states were created by the former colonizers with ethnic divisions that produced long-lasting disorder in many African countries. These divisions were aggravated by the continued European scramble for Africa's mineral riches. The Cold War played a role here, but its role is generally overestimated compared with the drive to exploit Africa's diamonds, gold and oil. In the

French, Belgian and Portuguese Africa policies, the Cold War played no role at all, and one could even question the role it played in reality in US Africa policy.

Cruel, corrupt and greedy African dictators can stand comparison with their Latin American counterparts, so aptly described by writers from Achebe to Asturias and Márquez. Their greed and misgovernment brought African states to the edge of bankruptcy. But it should be underlined that they were often seen by American and European political leaders as their allies and comrades in arms, and they were even, as was the case with Mobutu Sese Seko, brought to power by combined European (Belgian, French) and American action.

In economic terms, the colonial legacy of specific trade patterns still hampers development in sub-Saharan Africa. The reliance of export income on one or two primary commodities and the reliance of economic growth on these exports have obstructed Africa's economic progress for more than 25 years between 1978 and 2004. This was sustained by the Structural Adjustment Programmes that the IMF and the World Bank proscribed to African governments since the mid-1970s and in particular in the 1980s. Whereas an emphasis should have been made on investment (in health, education, agriculture, infrastructure), disinvestment was the rule, and development assistance during those years was mainly used to keep Africa alive.

This specific social, political, economic and administrative potion worked disastrously in many sub-Saharan Africa states from post-independence years to now. Change came only recently. In the last ten years we have seen more and more responsible African leadership in sub-Saharan Africa, more democracy and growth of a more vocal civil society. We acknowledge a change in donor policies with more attention paid to investment and poverty reduction, to the social sectors, with new aid instruments, and an emphasis on coordination and good 'donorship'. The Paris Declaration of 2005 is a remarkable and symbolic step forward, underlining the new aid relationship. This of course did not bring Africa much new money and it remains to be seen whether the other promises will be kept. The biggest danger that might push sub-Saharan Africa off the road again is the worldwide economic recession. Africa might just hope that the lesser dependence on Europe and the US, which allowed it to grow again in the last five years, will keep it out of the ditch now.

It means that now and in the future, sub-Saharan Africa is in a better position than in 1960 to reap some of the benefits of globalization. It is better educated, and most countries are in better health; its governments will not believe in state-funded industrialization and state farms anymore. Its markets are more diversified, and a slump in one of them might not hit so hard. Donors will hopefully refrain from tied aid, coordinate better and try to come to a really complementary task division.



That might be the road for policies in the years to come: stay on the path that has been taken in the last ten years of more ownership, coordination and dialogue, of higher aid volumes and freer aid instruments; do not combat the recession with the recipes of the 1970s and 1980s but with investments in infrastructure and the social sectors; look for real niches in the global markets and support private investment in them. The road will be slippery and hilly. Let us hope that it leads to an end of African poverty.

## NOTES

- 1 I use the word Africa in this text continuously, mostly referring to sub-Saharan Africa. This article is not about Mediterranean Africa.
- 2 MDG Africa Steering Group, *Achieving the Millennium Development Goals in Africa*. New York, July 2008.
- 3 In the 'Africa bestseller' *Afrika van Koude Oorlog naar de 21<sup>e</sup> eeuw* Roel van der Veen states: 'Around 1960 the African countries could still measure themselves in terms of economic development with the countries of East- and Southeast-Asia, but in the 1980s there was a huge gap between these regions' (p. 63. My translation P.Ho.). In his concluding chapter he makes the Thailand-Ghana and the Zambia-South Korea comparisons (also found in e.g. Calderisi 2006: 14-15). This book of the former Director of the Africa Directorate of the Ministry of Foreign Affairs of the Netherlands is translated into English with the title: *What Went Wrong with Africa: A Contemporary History*. What we see in this book and several others mentioned in the introduction of this article is a weak economic analysis, a huge under-estimation of the colonial legacy as well as a half-baked analysis of the aid system.
- 4 Zambia: from 50.1 years on average between 1970 and 1975 to 39.2 years in 2000-2005. Zimbabwe: from 55.6 years on average between 1970 and 1975 to 40.0 years in 2000-2005. Botswana: from 56.0 years on average between 1970 and 1975 to 46.6 years in 2000-2005.
- 5 27 out of 41 SSA countries for which data are presented in the latest Human Development Report show progress. Senegal: from 45.8 years on average between 1970 and 1975 to 61.6 years in 2000-2005. Gambia: from 38.3 years on average between 1970 and 1975 to 58.0 years in 2000-2005.
- 6 Figures from Human Development Report 2007-2008.
- 7 Figures from UNICEF, *The State of the World's Children 2008*. New York: UNICEF 2008.
- 8 World Bank, *World Development Indicators*. Washington, several years. The number of people in the region Europe and Central Asia living on less than \$ 2 grew from 20 million to 76 million and 4.7 per cent to 16.1 per cent.
- 9 Figures from UNDP and Acharya.
- 10 Figures from UNESCO (2005 and 2007).
- 11 Coulson (1982: 90-91, 224-225). Sixteen years later the University of Dar es Salaam had 3,000 students on campus and already 5,000 graduates (which could also be called a success story of development assistance since a lot of American, British and Scandinavian, later also Dutch, support was used in those years to build the university).
- 12 This is not to say that these 'Gallicized' or 'Anglicized' Africans – 'bounties' as they most probably would be called these days – were accepted as being really and fully French or British. They remained second-class citizens, and the system was still racist, as some authors (e.g. Davidson 1992: 27-30) stressed.

- 13 John Reader on education in the African colonies (1998: 620-627).  
 14 Remember that Congo is the third largest country of Africa in area and fourth in  
 population.  
 15 Walter Rodney (1972: 225) for example indicates that in Nigeria in the 1930s there  
 were 12 modern hospitals for 4,000 Europeans living in the country, while there  
 were 52 hospitals for more than 40 million Africans.  
 16 See for a maybe pro-British overview Tordoff (1993), Ch. 2.  
 17 For an overview of African history and also the history of European prejudice  
 on African societies, see Davidson (1984 and 1992), Reader (1997), Meredith  
 (2005) and Collins and Burns (2007). Walter Rodney (1972) stressed  
 that societies which eventually reach feudalism were 'extremely few'.  
 Most of Africa was in his eyes living under communalism in pre-colonial  
 times.  
 18 This was particularly strong in British colonies, e.g. the role of the kingdom  
 of Baganda in Uganda, but also other colonisers used this system, e.g. the  
 role of the Cape Verdians in Guinee Bissau, São Tomé and Príncipe, and in  
 Angola.  
 19 This story is also quoted as being true in scientific texts, e.g. Thomson (2004: 24).  
 The fact is that the German explorer and conqueror Peters signed treaties with  
 Chagga chiefs and got 'ownership' of Africa's highest mountain already in the  
 beginning of the 1880s. Most probably Kilimanjaro was traded against Mombasa at  
 the Berlin conference as maps brought into the conference by the Germans and  
 British show. See also: Graichen and Gründer (2005)  
 20 In his zeal to attribute everything that went wrong in sub-Saharan Africa in the  
 last fifty years to African political elites, Van der Veen (2002: 418-419) dismisses  
 this argument. He sees it as a geographical and purely practical problem and not as  
 a stumbling block for state formation. Funnily enough, he quotes the borderlines  
 between the Netherlands and Belgium, which he sees as 'absurd', to show that this  
 is not an obstacle for state formation. But Belgium is still, some 170 years after its  
 formation, amply demonstrating that it is not a nation.  
 21 Simpson (2008: 2) alludes to this problem in his introduction to a collection of  
 articles on language and national identity in Africa, by pointing to the fact that  
 Cameroon (16 million inhabitants) has over 250 spoken languages, Sudan (28  
 million) 140, Nigeria (40 million) 400, and Tanzania (60 million) 200. Single  
 language policies are thus not possible in most African states, which means that in  
 most cases the colonial language was recognized as the official language and the  
 language of instruction. The colonial language might also be a guarantee for  
 'ethno-linguistic neutrality'. In contrast with Europe, language nationalism does  
 not play a role in Africa, with the exception of some cases where there is a lingua  
 franca like Arabic or Swahili.  
 22 Kamarck opened his last chapter with a quote from Dante's *Inferno* in which  
 Dante expresses his belief that all forecasters should belong in Hell. But he was  
 rather optimistic that in particular mineral exporters might have sustained high

- growth rates of more than 7 per cent. For agricultural products exporters he saw chances only if they could expand their markets when others would fail because of mismanagement (Kamarck 1971: ch. XII).
- 23 Figures from Malhotra (2003) and Oxfam (2002) in constant 1990 dollars.
- 24 This is a famous case brought before the Trade Negotiations Committee of the WTO in June 2003. The Netherlands supported the production of a report on the cotton market. The US also forces textiles and clothing producers that want to import to the US market to use American cotton or fibre. Stiglitz and Charlton (2005: 59-62) indicate that American corn (-20%) and wheat (-42%) are also exported below production costs.
- 25 UNCTAD (2008b: 23). Between 2002 and 2005 the coffee price rose by 125.6 per cent, cotton by 36.8 per cent, bananas by 28.6 per cent, cocoa by only 9.8 per cent and tea by 18.2 per cent. But copper rose 356.5 per cent.
- 26 *The Guardian*, 26 March 2004. Mobutu was third and gathered about \$ 5 billion during his 32 years of rule; Abacha was fourth and collected between \$ 2 and 5 billion in five years. They are of course the top of the pyramid.
- 27 Jean-Bédél Bokassa could be called an exception too, since he was also a sergeant-major in the colonial army, but he was able to climb to the rank of captain by fighting in Indo-China and following courses after the Second World War.
- 28 First secretary at the American embassy in Kinshasa in those days was the later CIA deputy director, Frank Carlucci, who was also in Santiago de Chile in 1972-1973 and American ambassador to Portugal in 1974-1977. For evidence of CIA-staged coups and assassination plans, see the Senate commission report under chairmanship of Senator Frank Church (1975) and the less well-known Pike Committee of the House of Representatives.
- 29 See the books by François-Xavier Verschave (1998 and 2000), and for a historical overview, the book by Stefan Brüne (1995). The parliamentary report of the investigation on French oil interests was presented by the MPs Marie-Hélène Aubert and Piere Blum (1999). 'Foccartisme' is derived from the name of Jacques Foccart, who started as the main Africa advisor and planner of the French Africa policies under De Gaulle and served several presidents as such in the 1960s and 1970s and later under Chirac in the 1980s and 1990s.
- 30 Nyerere introduced this already in 1968. See Coulson (1982: 176-184) and Legum/Mmari (1995: ch. 6 and 13).
- 31 Romanticist because it seems to suggest that there were universal African systems to govern and universal religious systems for checks and balance. Romanticist also, because Davidson saw in the liberated areas in the Portuguese colonies embryonic forms of an 'African' way of state organization with mass participation (Davidson 1995: 202-206).
- 32 Chabal and Daloz start from a Weberian vision of the state and superimpose that on African states. Their analysis to show that African states are not 'modern' is then rather anecdotal and dismisses the 'modern' mainly for some elements only, like anecdotes on the recruitment of civil servants.

- 33 Walton and Seddon (1994: 137). Overstated, because the same kind of approaches  
could already be found in earlier IMF programmes in countries ranging from e.g.  
Chile to Portugal.
- 34 One could argue if this was a return to policies that earlier were at the forefront of  
critique from Latin America as voiced in Theresa Hayter's *Penguin Pocket Aid as  
Imperialism* (1971).
- 35 Ravenhill (1986), pp. 2-5.
- 36 Elliot Berg, The World Bank's strategy. In: Ravenhill (1986), p. 58.
- 37 Only after the *Adjustment with a Human Face* reports of UNICEF, did we see from  
time to time more critical remarks and discussions in the international donor  
community, in particular from the like-minded donors towards the Bank and the  
IMF, e.g. on health policies.
- 38 There is a vast literature on the effects of structural adjustment (in Africa). Evalua-  
tions from the World Bank and the IMF are not always sincere in their methodol-  
ogy, as John Toye, Jane Harrigan and Paul Mosley (in their *Aid and Power*) indi-  
cated. There are general overviews by scholars like John Williamsson, Tony Killick  
and Graham Bird, famous UNICEF reports under the leadership of Richard Jolly  
(*Adjustment with a Human Face*) and a series of country studies. On Africa in  
particular there are volumes collected and edited by Bade Onimode, Kidane  
Mengisteab and Ikubolajeh Logan, by Willem van der Geest and Rolph van der  
Hoeven, by Rolph van der Hoeven and Fred van der Kraaij, by Giovanni Cornea  
and Gerald Helleiner, by Magnus Lundström and Mats Kundahl, and a very inter-  
esting volume written for the Danish Parliament by Paul Engberg-Pedersen et al.  
And not to forget the nice general overview of Africa by Nic van de Walle. There is  
also the earlier critical and very first review of IMF programmes by Cheryl Payer. I  
am not going to list them all and go into detail on all these diversified visions, but  
in general they are all very critical and adhere to the points of criticism I raised in  
this section.
- 39 I will not deal with the way Paul Collier treats these 'traps' in this article. I have  
done so in abundance in a longer essay ([http://www.ru.nl/cidin/research/publications\\_cidin/publications](http://www.ru.nl/cidin/research/publications_cidin/publications)) and in a shortened review in the *European Journal of  
Development Research*.
- 40 The 'Dutch disease' explanation suggests that a high income from natural  
resources raises a country's prices and thus also the price of other export products,  
which make them uncompetitive. My point here is that the Netherlands in this  
period, like other Western European countries, became uncompetitive in (old)  
labour-intensive industries against cheap imports from Mediterranean and Asian  
countries.
- 41 In a recent paper Christa Brunnschweiler and Erwin Bulte criticized the causality  
that Collier and Hoeffler find in their papers on the resource trap and the relations  
between resource rents and conflict. They conclude: "The last word in the  
resource curse debate is far from having been spoken; but economic advisors  
should be aware that natural resources do not necessarily spell doom for develop-

- ment. Instead, their development can be a valuable part of a sustainable development strategy”: Are Resource-Rich Countries Cursed? Linking Natural Resources to Slow Growth and More Conflict. In: *Science*, 320 (May 2, 2008): 616-617. The two background papers are: Christa Brunnschweiler/Erwin Bulte, ‘The resource curse revisited and revised: A tale of paradoxes and red herring’, *Journal of Environmental Economics and Management*, 55 (2008): 248-264; and: ‘Natural resources and violent conflict: Resource abundance, dependence and the onset of conflict’, February 2008 (paper submitted to the Oxford Economic Papers).
- 42 See e.g. the paper: Simeon Djankov, José Montalvo, Marta Reynal Querol, The Curse of Aid. December 2007. This is an updated version of the paper under the same title of April 2005:  
[http://www.doingbusiness.org/documents/Djankov\\_curse\\_of\\_aid.pdf](http://www.doingbusiness.org/documents/Djankov_curse_of_aid.pdf)  
 (retrieved 31 January 2008). The paper is mainly a cross-country regression analysis based on dubious databases and some anecdotic examples. On 14 May 2008 the Dutch morning paper *de Volkskrant* opened with the headline ‘Development assistance is promoting corruption’, based on an interview with Simeon Djankov.. In that interview Djankov presented as evidence the case of Zimbabwe, and he actually states: ‘Look at Zimbabwe that was a donor darling in the seventies, look where it stands now’. Just to note: Zimbabwe did not even exist in the 1970s, and when it came into existence in the 1980s donors were very reluctant to provide assistance, because fighting between ZANU and ZAPU more or less started immediately’.
- 43 E.g. aid paid for more than two-thirds of the imports in the 1950s and for three-quarters of *all* (so not only government) investments (Krueger et al. 1989: 231-232). Similar figures could be presented for Taiwan.
- 44 For a series of examples, in particular regarding Dutch aid, see my dissertation: Hoebink (1988). Also Calderisi (2006) cites some examples of overoptimistic project planning in those years. Most literature on aid to Africa is written from the political perspective of the Cold War and its aftermath. There is rather little, apart from project evaluations, on the effectiveness of aid in the 1960s and 1970s. One of the exceptions is Carlsson et al. (1997). Another overview, based mainly on donor and OECD reports, is Lancaster (1999).
- 45 There is no space here to deal with recent changes in what is called the New Aid Architecture. For recent reports on the (monitoring of) Paris Agenda see the website of the OECD DCD-DAC and the Accra Agenda of Action (2008).
- 46 Handeling van de Tweede Kamer, vergaderjaar 2003-2004, 29 234 en 29 200 V, nr. 17, pp. 14-15 [Acts of Parliament, session 2003-2004]. The translation is mine (P.Ho.). The book of Roel van der Veen has only a few sections on development cooperation and only states that there are ‘no clear answers’ to the question of whether aid slowed down or held back development or that it made no difference (Van der Veen, ch. 9).
- 47 As I wrote in my newspaper reaction; ‘Hirsi Ali gelooft in toveren’ [Hirsi Ali believes in magic]. In: *de Volkskrant*, 22 November 2003. See also my critique on

48

the neo-conservative critique in the Netherlands in *Civis Mundi* (updated version in: *The Netherlands Yearbook on International Cooperation 2008* (forthcoming). Of course this “enormous progress” (quote from the evaluation reports) does not stem from development assistance alone, but is also due to the efforts of the respective governments, teachers, doctors, nurses and others involved in the education and health sectors. See the recent evaluations of the Evaluation Unit (IOB) of the Ministry of Foreign Affairs of the Netherlands and multi-donor evaluations on e.g. health in Tanzania.

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## 6 INCLUDING THE MIDDLE CLASSES? LATIN AMERICAN SOCIAL POLICIES AFTER THE WASHINGTON CONSENSUS

*Evelyne Huber*

Latin American countries have experimented with a variety of development models – from liberal export-driven models in the first third of the 20<sup>th</sup> century to import substitution industrialization (ISI) between roughly the 1930s and the 1970s, and neoliberal models since the 1980s. Latin America has also long been the region with the highest inequality in the world. At the height of the ISI phase, in the late 1960s/early 1970s, inequality declined very slightly, only to increase significantly in the debt crisis decade of the 1980s and to continue at very high levels during and after the phase of neoliberal reforms. Poverty followed a slightly different trajectory, rising from 40 per cent in 1980 to 48 per cent in 1990, falling to 44 per cent by 2002 and falling below 40 per cent for the first time in 2005 (ECLAC 2006: 7), only to threaten to increase again because of the rise in the price of oil and food in 2008.

These average figures, though, hide as much as they reveal about the extent and causes of these developments. There are important differences between Latin American countries in their levels and trajectories of economic and social development. Therefore, this chapter will attempt to strike a balance between discussing the causes and consequences of these differences and drawing out some general lessons. The generalizations will by and large apply to the larger and more advanced Latin American countries, which together account for well over 80 per cent of the Latin American population. Some of the smallest and poorest countries (Haiti, Nicaragua, El Salvador, and Guatemala) have been wracked by brutal dictatorships, revolutions, and civil wars, which retarded their economic and social development and rendered their development processes different in essential ways from those of the other Latin American countries.

To foreshadow some of the key lessons: Neoliberal social policy reform, that is, reduction of the state's role in social protection and provision of social services in the form of privatization of social security and greater reliance on private insurance and provision of health care, has failed to provide adequate protection and services to a majority of the population. Employment-based social insurance schemes fail to offer protection to those in the informal sector, which amounts to roughly half of the working population. Underfunding of public health services and public primary and secondary education has damaged the quality of human capital and led the middle classes increasingly to search for private alternatives. The challenge is to reorient the social policy regimes towards the provision of

universalistic basic benefits and access to quality health care and education. Under new governments of the left or centre-left, important new initiatives have been launched to provide a basic income floor to the elderly and the working population with children through non-contributory benefits. Also, significant efforts have been made to provide quality health care to all, including the middle classes and the poor. These initiatives are crucial for improving the human capital base and social integration and thus for strengthening the potential for economic development as well.

## 6.1 THE ISI PERIOD AND THE ORIGINS OF SOCIAL POLICY REGIMES

Brazil and Mexico in the 1930s were the pioneers in reorienting their development models towards the domestic market, fostering industrialization behind high tariff walls and with heavy government intervention in the economy. Argentina and Chile made a big push in the 1940s, and other countries followed in the next two decades. As industrialization progressed, both blue-collar and white-collar workers joined unions and pressed for improvements in wages and benefits. Social insurance schemes had been introduced earlier for the most important pressure groups, such as the military, civil servants, and the judiciary, and with the progress of ISI they were slowly expanded to middle-class groups and strategic sectors of the working class and finally to formal sector workers in general (Mesa-Lago 1978; Huber 1996). As a result of this process of gradual expansion, the systems of social insurance were highly fragmented and generally quite inequalitarian. The early schemes for the privileged groups remained in existence, offering better benefits than the general blue-collar schemes. The social policy regimes, which typically included pensions, family allowances and health care, were built around employment and the male breadwinner model, not citizenship rights. Women and children were covered as dependents. Coverage remained restricted to those employed in the formal sector and their families, with the rural population and informal sector workers excluded.

Only six Latin American countries had built up social policy regimes that covered more than 60 per cent of the economically active population with some form of social security as of 1980. These countries are Argentina, Brazil, Chile, Costa Rica, Cuba, and Uruguay.<sup>1</sup> Another group of six countries had expanded coverage to between 30 per cent and 60 per cent of the economically active population by 1980: Colombia, Guatemala, Mexico, Panama, Peru, and Venezuela. Coverage in the remaining countries remained below 30 per cent of the economically active population. With the exception of Costa Rica, the social policy regimes in the most advanced countries were highly fragmented and inequalitarian, resembling the conservative-corporatist regime type (Esping-Andersen 1990). Costa Rica had a small number of special social security schemes only and a unified public health system.

Both the ISI growth model and the social security systems of the more advanced countries ran into serious problems in the 1970s. The Achilles heel of the ISI model was the balance of payments; raw material export earnings did not keep pace with the rapidly increasing import needs of the industrializing economies. The model was kept alive by easily available loans from international financial markets in the 1970s, until the debt crisis forced a fundamental reorientation. The social security systems themselves were experiencing financial difficulties in the more advanced countries. The pension systems had matured, and the ratio of working to retired people was deteriorating. The reserves that should have been built up in the maturation phase had often been used for other state expenditures. During periods of high inflation, there was often decapitalization of the pension systems. Benefits in the privileged systems in some countries were very high, as were the administrative expenditures of the systems. Employers attempted to evade payment of the contributions or delayed payment for long periods, particularly during high inflation. The deficits of the social security systems in turn were a heavy burden on government budgets and therefore were high on the reform agenda of the international financial institutions (IFIs), particularly the International Monetary Fund (IMF) and the World Bank.

## 6.2 THE DEBT CRISIS AND THE WASHINGTON CONSENSUS

The debt crisis began in 1982 and gave extraordinary leverage to the IFIs and ushered in prolonged imposition of austerity packages and structural adjustment programs. IMF programmes imposed devaluations, cuts in government expenditures, cuts in real wages in the public and private sectors, increases in real interest rates and decreases in the money supply, in order to reduce domestic demand, stimulate exports, attract foreign capital, and thus improve the balance of payments. In order to reduce fiscal deficits on a more permanent basis, the IFIs developed structural adjustment programmes. These programmes were insisted upon particularly by the World Bank and the US Agency for International Development, and their basic policy components came to be known as the Washington consensus. The components of the Washington consensus were cuts in expenditures, particularly in subsidies of all sorts; tax reforms that cut marginal rates and broadened the tax base; market determination of interest rates; market determination of exchange rates, with possible intervention to keep them competitive; import liberalization; liberalization of foreign direct investment; privatization of state-owned enterprises; deregulation of all kinds of economic activity; and protection of property rights (Williamson 1990: 7-20).

The combination of austerity and structural adjustment programs was extremely painful to implement, particularly for the new democratic governments in Latin America. Accordingly, implementation was uneven; governments who found themselves in a stronger bargaining position vis-à-vis the IFIs implemented these

reforms more selectively. In contrast, governments whose countries had experienced particularly deep economic crises accompanied by hyperinflation were more willing and able to push radical reforms (Weyland 2002). In many cases, far-reaching structural adjustment was delayed until the 1990s.

The general scenario in Latin America in the 1980s was dismal. Latin American countries became net exporters of capital to the Global North (Stallings and Peres 2000: 25-7). Unemployment, poverty, and inequality all increased. Public services in health and education deteriorated. These years aptly became known as the “lost decade”.

### 6.3 NEOLIBERALISM AND ITS FAILURES

By the late 1990s the Latin American countries had dramatically changed their economic models towards open trade and open financial markets. This had important implications for tax revenue and thus for the resource base for social policy. The share of total tax revenue coming from taxes on foreign trade fell from 18 per cent in 1980 to 14 per cent in the mid-1990s. Marginal tax rates on personal income and taxes on corporate profits were reduced in virtually all cases, and reliance on value added taxes increased. However, collection rates have remained lower than the statutory rates (Lora 2001), and average tax revenue has remained low compared not only to OECD countries but also to East Asian countries at similar levels of development. Average tax revenue in Latin America, including social security contributions, in 2002 was 16 per cent of GDP, compared with 36 per cent for OECD countries in general and 26 per cent for the US and Japan, the two advanced industrial countries with the lowest tax burdens (Centrángolo and Gómez Sabaini 2006: 53). There are major differences between Latin American countries, Brazil being at the top end with a tax burden that had surpassed 30 per cent of GDP by 2005, but Chile, for instance, remaining at only 18 per cent of GDP.

Pressures from IFIs and their allies in domestic networks of technocrats (Teichman 2001) also extended to a reform of social policy regimes in the 1980s and 1990s. Pressure was applied to all social policy regimes, regardless of their structure, but it was particularly intense on systems with high deficits. What differed between countries was the capacity of opponents of reform to resist the pressures. The general contours of the reforms entailed full or partial privatization of the pension systems, expansion of private insurance and service provision in health care, and the establishment of demand-driven emergency social funds to cushion the impact of the crisis on the poorest communities. These reforms were later complemented with some emergency employment programs and conditional cash transfer programs. Altogether, ten Latin American countries implemented full or partial privatization of their pension system. In five cases, privatization was total, with the public system being closed down; in five cases it was partial, with the private system being supplemen-

tary or a parallel option (Muller 2002). In the cases where the public system survived, it typically underwent reform as well to strengthen its financial basis.

The reforms were most radical in Chile, where the Pinochet dictatorship heavily repressed any opposition, with full privatization of the pension system and a strong expansion of private sector health care. In other countries, such as Uruguay, Argentina, Brazil, and Costa Rica, opponents of social security reform mobilized and managed to preserve a strong public part of the system. In Costa Rica, the unified public health system enjoyed particularly strong support, and various governments acted to strengthen it rather than shift to more private sector involvement. By the 1990s, with the opening of their economies, many governments became more concerned with the quality of the human capital base and thus developed programs to strengthen basic health care and education. The conditional cash transfer programs that provided some basic income support to poor families as long as they kept their children in school and attended medical check-ups responded to this concern.

The economic record since 1990 has been one of renewed growth but with high volatility. The Mexican crisis of the mid-1990s, the Brazilian crisis of 1998, and the Argentine crisis of 2001-02 had spill-over effects on other countries in the region and caused stagnation or even economic contraction. On average, with the exceptions of 1995, 1999, 2001, and 2002, the region saw growth in GDP, though if we look at GDP per capita, some of these growth rates (1998 and 2003) were marginal indeed (ECLAC 2007b: Tables A-2 and A-3).

The period since 2004 has seen the first consecutive five-year period of above 3 per cent growth in GDP per capita in 40 years, since the period immediately before the first oil shocks, fuelled by demand for raw materials in the rapidly growing industrializing economies of India and China (ECLAC 2007a: 2). However, Latin American governments are doing little to prepare for the inevitable end of the commodities boom. The record on industrial upgrading is disappointing. Only Mexico, under NAFTA, managed to significantly expand the share of its total exports accounted for by products intensive in technical progress; by 1997 this share was 35 per cent, up from 14 per cent in 1990; the next highest share was in Brazil, with 14 per cent, up marginally from 13 per cent in 1990 (Baumann 2002: 59). Even Chile, with one of the most competent governments and one of the most effective states in the region, has remained reliant on commodity exports and has made little progress in research and development. Since governments have largely abandoned targeted industrial policy and management of foreign investment, they are relying on a 'horizontal' (not sectorally focused) and demand-driven (demand by the private sector) approach (Peres 2006). This of course has been the approach preferred by neoliberals (if they conceded the need for any kind of industrial policy at all), but it is not the approach that successful developmental states or successful parts thereof have used (Evans 1995).

The record in social development since 1990 has been one of a gradual and small reduction of poverty overall, accelerating since 2002. In 1990, 48 per cent of the Latin American population lived below the poverty line; this proportion declined to 44 per cent by 2002 and then to 36.5 per cent by 2006, falling below the 200 million mark for the first time since 1990. Extreme poverty declined from 22.5 per cent in 1990 to 13.4 per cent in 2006 (ECLAC 2007a). Inequality continued to increase overall and then stagnated after the turn to the 21<sup>st</sup> century, with some exceptions to be discussed below. In part, the reduction in poverty was a result of economic growth, but in part it was the result of changes in social policy and improvements in the legal minimum wage.

Inequality, of course, has deep historical roots in Latin America, going back to the monopolization of land under colonial rule, but the structural adjustment policies made a bad situation even worse. Liberalization of trade and finance resulted in deindustrialization and informalization. The costs were particularly high where the reforms were implemented as shock therapies, i.e. where far-reaching reforms were implemented very fast (Huber and Solt 2004). Many manufacturing enterprises were simply unable to modernise fast enough to compete with cheaper imports in the new economic environment and went bankrupt. Privatization of state enterprises was always accompanied by rationalization, adding to the shrinking of formal sector jobs.

The loss of formal sector jobs of course meant that the employment-based social policy regimes became ever more inadequate. Even where social security at the height of ISI had reached a large majority of the population, coverage shrank to roughly half of the population – with only a few exceptions. Several studies of the region's social policy regimes have uncovered evidence of the ineffectiveness of contributory social insurance policies to protect the poor and redistribute income downward in Latin America (Lindert et al. 2006; ECLAC 2005; Uthoff 2006). In an analysis of the redistributive impact of social spending in the region, the United Nations' Economic Commission on Latin America and the Caribbean [ECLAC] found that a very small share of social security spending is received by the bottom 20 per cent of income earners. Even the best-performing country in the region, Costa Rica, distributes only 12 per cent of social security spending to the bottom income quintile, while 45 per cent of funds are allocated to the top 20 per cent of the income distribution (ECLAC 2005: 144). The top quintile in Brazil and Uruguay receive about 50 per cent of total social security expenditure. The skewed nature of spending is even more dramatic in the region's less-developed social policy regimes. In Colombia, for example, 80 per cent of social security expenditure is delivered to individuals in the top income quintile (ECLAC 2005: 146).

Lindert et al. (2006) analysed 16 social insurance policies in the region and found that all of the programs are regressive. The 16 programs include pensions and other



labour-related benefits, such as unemployment insurance and severance pay. Among social insurance programmes, the authors found that net pension benefits, or the benefits received minus total contributions, are the most regressive form of social insurance. Specifically, the authors found that on average in Latin America, the top 20 per cent of income earners receive 61 per cent of net pension subsidies, while the bottom quintile receives a mere 3 per cent (Lindert et al. 2006: 27). The depth of this problem becomes clear when we keep in mind that over 80 per cent of all transfer spending in Latin America goes to social security (Huber, Mustillo and Stephens 2008).

In contrast, there is significant evidence to suggest that non-contributory social assistance is much more effective than social insurance at protecting Latin America's poor. Still, such policies make up only a minimal share of spending. Lindert et al. (2006) report that for their sample of 8 countries, spending on non-contributory social assistance as a share of total social spending in 2000 was about 7.7 per cent (my calculations using data from Lindert et al. 2006). This is even less impressive if one considers this category of spending as a share of GDP. The highest social assistance spender was Argentina, which allocated 1.2 per cent of GDP to such programs, which is still significantly lower than state expenditure on social insurance (8.9 per cent of GDP) (Lindert et al. 2006: 86).

In light of the prominence given to the reforms of the Chilean pension and health care systems by advocates of neoliberal social policy principles, it is worth examining these experiences briefly. Some 25 years after the privatization of the Chilean pension system, the shortcomings of the new system became all too obvious. Participation in the pension system is mandatory for all employees, but effective coverage, that is, the proportion of the workforce making regular contributions to the pension system, is just below half; administrative costs are very high, mainly because of marketing expenses; the system of commissions and fees weighs particularly heavily on lower income earners and significantly lowers the real rate of return compared to the one claimed by the private firms that administer the pension funds (Mesa-Lago and Arenas de Mesa 1998: 69); and there is no evidence that the new system caused an increase in the national savings rate (Uthoff 1995). Given the instability in the labour market, the low wages, and the size of the informal sector, a large percentage of the workforce at their age of retirement will not have contributed for the required 20 years and thus be dependent on social assistance pensions, and another large percentage will not have accumulated sufficient funds in their accounts to get beyond a subsidized minimum pension. In other words, the state has to subsidize the pensions of low-income earners without having the benefit of the contributions from middle- and high-income earners.

In health care, the system had been reformed by Pinochet into an underfunded public system (*FONASA*) and a private for-profit system (*ISAPRES*) to which wage

and salary earners could direct their mandatory contributions. *ISAPRES* could charge additional payments and discriminate on the basis of risk. This generated a considerable amount of risk skimming, that is, the practice through which private insurance companies discriminate against high-risk individuals, thereby reducing their liabilities and passing the elderly, sick, and poor to the public sector. Frequently, middle-income individuals would contribute to an *ISAPRE* during their working life and then rely on the public sector after retirement or in case of serious illness. Thus, despite significant increases in public health expenditures under the democratic governments, health care in the public sector remained unsatisfactory, and pressures for change mounted.

#### 6.4 TURN TO THE LEFT AND BASIC UNIVERSALISM?

The disappointments with the results of the reformed systems have stimulated a fundamental rethinking of approaches to social policy in Latin America. The ideas that are largely new in the Latin American context have been inspired by the principles of universalism and basic citizenship-based social rights, as embodied in the Northern European models, adapted to Latin American realities. They have come from Latin American think-tanks and achieved exposure among other ways through a publication sponsored by the Inter-American Development Bank (Molina 2006). Moreover, left-of-centre governments have gone from rethinking to a new round of reforms, taking social policy in promising new directions.

The key characteristics of *universalismo básico* (basic universalism) as the orienting principle for social policy are universal coverage of essential risks and benefits, ensuring access to transfers, services, and goods meeting homogeneous quality standards, with entitlements based on citizenship and conferred as rights, but also carrying with them corresponding obligations (Filgueira et al. 2006: 21). The state has to assume the role of guarantor of the rights of access to such transfers and services. These characteristics stand in marked contrast to the multi-tier/multi-quality kinds of transfers and services prevalent under the neoliberal model, access to which is based on market power or income and means tests that involve significant discretion for the welfare bureaucracies. Pursuit of the principles of *universalismo básico* over the medium and long run is expected to replace fragmentation and social exclusion with a renewed sense of a public interest and social integration (Filgueira et al. 2006: 41).

In practice, these principles have given form to a number of new initiatives. In particular, universalism has taken on a different meaning from that in advanced industrial societies. In the latter, a heavy reliance on means-testing is associated with liberal welfare state regimes and seen as charity-like assistance, whereas universalistic programs are considered fundamentally different as they are a social right. This view of means-testing makes sense in a context where a small minority

of the population qualifies for these programmes and where there is considerable discretion on the part of the welfare bureaucracy, be it with food stamps in the United States or with assistance programmes for the extreme poor under the neoliberal model in Latin America. However, in developing societies, where inequality is extreme and resource constraints are severe, it may make sense to have some kind of a means test, as long as the coverage of the programs is very wide and established as a citizenship/ residency right, with a minimum of discretion. Essentially, what those means tests can do is to select out upper middle and upper income earners – say the top one or two deciles – that do not need the support. In principle, it would be preferable to have truly universal programmes and reclaim the benefits from the higher income earners through the income tax system, but in practice Latin American income tax systems are extremely deficient, and means tests will remain more feasible at least in the medium run.

Along with attention to the principles of basic universalism, the rethinking of social policy in Latin America entailed greater attention to the welfare of children and their working-age parents who were disadvantaged under the old social security systems compared with pensioners. The IFIs supported this reorientation in so far as they emphasized the importance of investment in human capital, which is essential for economic growth. Investment in health and education alone, however, will not bring the desired results if the poverty of the parents is not addressed. As long as children's help is an essential component of the survival strategies of families, the children will not be able to take full advantage of the educational opportunities.

Conditional cash transfers (CCTs) became the most widely used type of programs to address the problem of keeping poor kids in school and in regular touch with health centres. They consist of a small cash transfer to poor families for each child of a certain age, conditional on certain behaviours, such as regular school attendance and health check-ups of this child. In other programmes, adult recipients of cash transfers are required to participate in training or work projects. Lindert et al. found strong evidence to suggest that non-contributory social assistance spending in general, and CCTs in particular, are highly progressive and quite effective at protecting the poorest sectors of society (Lindert et al. 2006: 28). However, as noted above, such programmes make up only a small fraction of overall social spending. Easily the largest program of this kind is *Bolsa Familia* in Brazil. The programme expanded from some 5 million families in 2001 to roughly 11 million families or 44 million individuals by 2006, and the programme's popularity has been credited with playing a crucial role in Lula's re-election in 2006 (Hunter and Power 2007). Still, the programme expenditures amounted to only 0.5 per cent of GDP in 2006.

Not only left-of-centre governments have promoted CCTs. The Mexican government of Zedillo started *Progresas*, and Fox renamed it *Oportunidades* and expanded

it to reach more than 4 million families by 2002. A World Bank study evaluating such programmes in 2003 listed programs in Brazil, Colombia, Honduras, Jamaica, Mexico, and Nicaragua. It concluded that evaluation results from the first generation of CCT programs in Brazil, Mexico, and Nicaragua showed that they effectively promoted human capital accumulation among poor households by increasing school enrollment rates, improving preventive health care and raising household consumption (Rawlings and Rubio 2003: 15). Several other countries established programs with some CCT traits, such as Chile with *Chile Solidario*, and Uruguay with *PANES*. Still, despite their demonstrated beneficial impact on human capital, the CCTs generally remained heavily targeted at the very poor and limited to a small share of total social expenditures.

A notable exception to this pattern, and a step in the direction of basic universalism, is the *Plan Equidad* which the *Frente Amplio* (FA) government in Uruguay developed to replace the emergency program *PANES*. The *Plan Equidad* is a comprehensive policy package to improve human capital, employment, and household consumption for roughly a third of the population (Campodónico 2007). It entailed an increase in the value of the family allowance and a decrease in the age requirement for the non-contributory social assistance pension from 70 to 65 years. Uruguay's family allowance system provides the benefit to all families that qualify with regard to their household income, regardless of employment status. Payment of the allowance is conditional upon children's attendance in school. The *Plan Equidad* calls for further expansion of preschool and incentives to boost secondary attendance and retention. It provides subsidies to private firms that contract unemployed members of poor households, expands the use of nutrition cards, and subsidizes electricity and water costs (Cuenca 2007; El Observador 2007).

Other crucial policy changes informed by the principles of basic universalism have been the pension reform in Chile and the health sector reforms in Chile, Uruguay, and Costa Rica. The shortcomings of the privatized Chilean pension system motivated Socialist President Michelle Bachelet to put pension reform high on her agenda. The bill was signed into law in early 2008, and the new system went into effect in July of the same year. The new pension system offers two kinds of solidaristic pensions for old age, disability, and survivor benefits to individuals who have lived at least 20 years in Chile, including four of the five years immediately preceding their request for the pension. Old age pensions can be requested by those 65 years and older. One kind is a basic universalistic pension for all those who have not contributed to a private pension fund and who are in the bottom 60 per cent of income earners; the other one is a solidaristic supplementary pension for all those whose accumulated pension funds yield a pension below a defined limit. The basic universalistic pension in 2008 is set at 60,000 pesos per month, the equivalent of \$ 120, the total supported by a solidaristic supplementary pension at 70,000 pesos. These benefits will increase on a schedule up to 2012, and

they preserve a strong incentive for people to contribute to the pension system. Given that the solidaristic pensions are available to people in the bottom 60 per cent of income earners as a matter of right, this reform constitutes a major break with the model of the past, when narrowly targeted social assistance pensions were granted on a discretionary basis and dependent on the availability of funds.

The inequities in access and the disadvantages for the public sector in the Chilean health system prompted an important new health care reform under Socialist President Ricardo Lagos. The *AUGE* health care reform guaranteed universal coverage of 56 illnesses, applied gradually with 25 being covered by 2005, 40 by 2006, and the full 56 by 2007 (Dávila 2005: 26). The reform stipulates a timeline for treating the illnesses and commits the state to covering the cost of treatment in the private sector if public providers are unable to provide care as stipulated by the law. Moreover, the law establishes the value (and limits) of co-payments made for the treatment of *AUGE* illnesses. Where the final product differs significantly from the government's original proposal is with regard to the 'solidarity' fund, which would have pooled a portion of contributions from private and public users but was rejected by the legislature and replaced with an inter-*ISAPRE* solidarity fund. The government had proposed funding *AUGE* through an alcohol and cigarette tax but had to settle for a one percentage point increase in the value added tax,<sup>2</sup> increased efficiency in the use of health funds, increases in government revenue tied to economic growth, and new co-payments (Espinosa, Tokman and Rodriguez 2005).

The Uruguayan health care system also contained a mixture of public and private provision and financing, but the private sector was not for profit, in stark contrast to Chile. Formal sector workers were required to affiliate with a not-for-profit private insurance company (*IAMC*), and their and their employers' mandatory payroll taxes were allocated directly to this company. The public system, by contrast, was financed through general revenue and existed to provide services to the poor. This division created high levels of inequality with regard to the quality of care available in the public and private sector. Moreover, coverage for dependents was not automatic, with the result that many children were not insured. Under the new system, payroll taxes for health care will go to a national health care fund administered by a committee comprised of government, citizen, and medical sector representatives. Workers will pay differential amounts of payroll taxes depending on their family status, which will extend coverage automatically to children. The national health care fund will then allocate a per-capita payment to the health care provider that the worker chooses to use. Citizens will have the option to choose between the public and private sector and among distinct *IAMCs*. The per capita payment that is transferred from the national health care fund to the provider will vary based on the risk profile of the individual being covered but be the same for the public and the private sector.

The new system also reduces the value of co-payments and increases regulations on the services *IAMCs* must provide free of co-pay to children, the elderly, and pregnant women. Additionally, there are deadlines for the length of time that any individual will wait for services (Campodónico 2007). In sum, the reform makes great strides towards universalising health care coverage and reducing inequities in financing and thus in the quality of care. Where it falls short is in the coverage of non-poor informal sector workers and their dependents, just like the Chilean health care reform.

The Costa Rican health care system has long been an exception in Latin America because an integrated national health service was established in 1973, such that by 1980 only 14 per cent of consultations were done on a private basis (Casas and Vargas 1980: 268). Payroll taxes for health care went to the public system, and they insured the dependents of the contributing worker. This system also began experiencing problems of long lines and long waiting periods for major treatments in the 1980s, with the result that higher income earners began to leave the system for the private sector, and the private share of health expenditures rose from 26 per cent in 1991 to 32 per cent in 2000 (Martínez and Mesa-Lago 2003). In order to expand public insurance coverage, the government heavily subsidized voluntary contributions from informal sector workers. As a result, coverage reached 84 per cent of women and 77 per cent of men (Martínez and Mesa-Lago 2003). Different Costa Rican governments resisted external pressures for a Chilean type of reform and instead implemented a reform that improved the access of the insured and of the poor to quality health care via new primary care centres.

As noted above, the period since 2004 has been one of exceptional growth, and in several countries (Argentina, Brazil, Chile, Costa Rica, Panama, Peru, El Salvador, Uruguay, and Venezuela) not only poverty declined but also inequality, albeit slightly (ECLAC 2006: 16). Particularly under the left-of-centre governments in Brazil, Chile, Uruguay, and Venezuela, social policy was an important contributor, as were the increases in wages for the lowest income earners, be it through minimum wage legislation or other forms of government intervention in wage setting (Huber and Stephens forthcoming). Though the reduction of inequality was generally slight, at least the trend was heading in the right direction after decades of heading up.

## 6.5 THE ROLE OF THE MIDDLE CLASSES

When we think of the political role of the middle classes with regard to social policy in OECD countries, we tend to think of the median voter. Sociologically speaking, the median voter in Latin America is distinctively lower or working class, and the middle classes begin somewhere above the 7<sup>th</sup> decile of income earners. Portes and Hoffman (2003) distinguish between the informal proletariat

(urban and rural), the formal proletariat (manual and lower non-manual), the petty bourgeoisie, and the dominant classes (professionals, executives, and capitalists). Informal (urban and rural) workers constitute the largest occupational category in the region. Portes and Hoffman (2003: 46-49) estimate that, on average, 45.9 per cent of the region's workers operate in the informal sector and are – in their formulation – part of the informal proletariat. Manual labour and non-manual white-collar workers make up comparatively small shares of the occupational structure, just 23.4 per cent and 12.4 per cent, respectively. The relative size of distinct class groups is fairly similar across Latin American countries, regardless of the level of economic development. Indeed, in both Chile and El Salvador, the informal and manual working class sectors of society make up more than 60 per cent of the working age population, while the (sociologically defined) middle sectors – the non-manual formal sector and the petty bourgeoisie – account for about 20-25 per cent of the working age population.

We get a similar picture of the size of the lowest categories from ECLAC's (1999) comparative analysis of eight countries: Brazil, Colombia, Costa Rica, El Salvador, Mexico, Panama, and Venezuela. The study finds that occupational categories in the region can be divided, based on the income they generate, into three fairly homogenous groups: lower, intermediate, and higher, with the "higher" category covering just 9 per cent of the population. The intermediate sector, meanwhile, groups an additional 14 per cent of the population, while 75 per cent of working-age individuals falls into the "lower" income occupational categories (ECLAC 1999: 61).

This picture of the occupational and income structure makes it clear that in Latin America it is easy to design social programmes "targeted" at low-income groups, or the lower and manual working classes, that benefit a clear majority of the population. This may be appropriate for income transfer programs, at least as an initial step, and this is precisely the model that is being followed by Chile's latest pension reform that makes benefits available to people in the lowest 60 per cent of income earners. In the longer run, one would certainly want to include the middle classes in these benefits (in Latin America, those are the income deciles 7-9) in order to garner their political support for the social policy regimes and associated taxation. The CCT programs are clearly vulnerable to political resistance against taxes to finance them, as they all still benefit a minority of the population only.

When it comes to social services, the political problem of keeping the middle classes as users and financial supporters of public health and education services is an immediate one. Middle class flight to private alternatives reduces the political support from this vocal group for resources to be devoted to the public sector and thus the quality of services in the public sector, generating a two-class system of health and education. The political challenge is to prevent or reverse middle class

flight by improving the quality of public health and education services through efforts such as the Costa Rican and Uruguayan health sector reforms. Preventing such flight is easier than reversing it. Once private sector entities have become important providers of health and education, they turn into interest groups that fight politically for their and their clients' interests and against financing for the public sector. This is exactly what occurred in the Chilean case, where the *ISAPRES* fought hard against the solidarity fund contained in the original *AUGE* bill that would have strengthened the public sector by giving it access to some of the health contributions from individuals with private insurance. Thus, governments have strong medium- and long-term political incentives to improve the quality of public health and education services and keep them competitive with private alternatives. These incentives should reinforce the commitment to improve health and education based on the developmental goals of improvement of human capital and the normative goals of basic universalism.

## 6.6 LESSONS FOR DEVELOPMENT POLICY AND EXTERNAL SUPPORT

The lessons for development policy that follow from the preceding discussion are quite straight-forward. The question of ways to support such policies from the outside is rather more complicated. Maybe the most central lesson is that the quality of human capital is a key ingredient for success in the knowledge economy. As long as human capital remains scarce and highly unequally distributed, societies cannot compete successfully in the world economy. This calls for significant investment in public health and education, including preschool education. It also calls for transfer programmes that keep families out of poverty so they can keep their children in school. Transfers can also be linked usefully to participation in public works, adult education, and job training. The principles to be followed are those of basic universalism – citizenship or residency-based rights to transfers that provide protection from poverty and access to quality health and education services. At present, building blocks towards such a model are being put into place in the form of CCT programmes in Brazil and Mexico, the solidaristic pensions in Chile, and the *Plan Equidad* in Uruguay. However, in order to make these programmes politically sustainable over the longer run, and thus really effective in improving the human capital base, they need to be expanded to become more truly universal and include the middle classes. If the middle classes have the reassurance of a basic income during possible unemployment and in old age, and if they can obtain good free or subsidized health care and send their children to quality public schools, they are more willing to pay the taxes to support these programmes. This in turn requires an expansion of the financial base of these programmes and thus a sound economic growth model.

In order to achieve sustainable growth, governments need to make concerted efforts at industrial upgrading. The commodities boom has been great for Latin



America, but it will not last for ever. This will require a more activist industrial policy and a foreign investment regime, that is, a reinsertion of the state into a role from which it withdrew in the course of neoliberal reform. Of course, this does not mean a return to pre-debt crisis policies in general; there are certainly successful models of economic and industrial policy and foreign investment regimes in East Asia from which Latin American governments can learn (Chang 1998, 2002).

How can such approaches be supported from the outside? Clearly, the primary drivers are national governments. However, governments respond to incentives in the form of examples of best practice and financial support for specific programmes. Over the past two decades, the international environment has not been particularly supportive of state interventionist social and economic policy. However, as the limitations of neoliberal state shrinking and over-reliance on markets have become painfully obvious, international institutions and national governments are becoming more supportive of and receptive to successful models of state intervention in support of human capital and industrial development. Support for research on and dissemination of knowledge about such models is one form of promising external support.

In social policy it is also the case that successful programmes tend to have demonstration effects. A case in point is the spread of CCT programmes. Thus, support for reform programmes in health and education in the form of research, advice and money can be an effective approach. However, not all governments are equally receptive to outside support for the types of programmes suggested above. We know from quantitative social science analyses that long records of democratic government and of left-of-centre incumbency of legislators and executives in Latin America are associated with lower levels of poverty and inequality (Huber et al. 2006; Pribble, Huber and Stephens, forthcoming). This suggests that these types of governments would be particularly receptive to support for programmes of a basic universalistic type.

Beyond specific programme support, these lessons suggest that democracy itself should be strengthened, along with the capacity of the underprivileged to organize. Democracy cannot be imposed from the outside, if the internal balance of power between social groups and between the state and civil society is inhospitable. However, once installed, democracy can be supported from the outside with decided opposition against attempts to curtail it. Examples are diplomatic pressures and measures like the freezing of foreign assets of governments and individuals engaged in curtailing democracy. Moreover, support for civil society can strengthen the infrastructure of democracy in the medium and longer run, and it can strengthen the political capacities of forces advocating for universalistic social programs.

## NOTES

- 1 These figures are drawn from Mesa-Lago (1994: 22). Coverage figures vary widely among different sources, depending on whether legal entitlements or actual contributions are taken as the criterion. Mesa-Lago is the most prolific researcher and writer on social security in Latin America, and his figures can be accepted for comparative purposes.
- 2 This increase was also used to finance the social assistance program *Chile Solidario*.

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## 7 IMAGINARY INSTITUTIONS: STATE-BUILDING IN AFGHANISTAN

*Martine van Bijlert*

Development is taking place in increasingly complex post-conflict environments, and despite the challenges involved, ambitions have soared rather than waned. The interventions are driven by a broad peace-building agenda and involve a wide range of activities in the fields of security, diplomacy, governance and development – all at once. Underlying these ambitions is the belief that multi-party democracy and a free market economy are the surest route to stability, and the assumption that outside intervention can bring this about (despite a body of research suggesting that this may not be that simple).<sup>1</sup> Afghanistan provides a case study of the complexity of such an endeavour and raises poignant questions about both its assumptions and the way it is being attempted.

The challenges in Afghanistan are wide ranging – from insurgency to illiteracy, from its mountainous terrain to its interfering neighbours, and from its culture of honour to the proliferation of Islamic radicalism. In this context, a grand coalition of nation builders is attempting to establish a functioning state, a representative government, a healthy economy, a fair justice system and efficient security forces. After seven years of efforts, these goals are still proving highly elusive. This chapter aims to explore some of the reasons why.

The chapter will not focus on the high politics of state-building in Afghanistan – the political choices that have been made along the way – as these have already been well documented elsewhere.<sup>2</sup> Instead, it will explore how the assumptions and strategies of the state-building effort have interacted with Afghan realities. The chapter will first briefly look at what the state in Afghanistan currently looks like and will describe some of the social and political dynamics that hamper institution building: patronage, the twin dynamic of inclusion and exclusion, and the political economy. This will be followed by a discussion of the nature of the state-building effort, its problems with coherence, and the kind of strategies and solutions that the international community seems to prefer. Lastly, the chapter will briefly touch upon some of the deeper questions: whether Afghanistan was ready for this and whether a state can be built in this way, from the outside.

## 7.1 THE AFGHAN STATE AND THE DYNAMICS THAT AFFECT IT

### HOW THE STATE LOOKS AND BEHAVES

In many ways, the “natural state” as described by North et al. (2005) is an apt description of Afghan society, where privileges are given in exchange for political support to those who can threaten the state, and where those outside the ruling elite are preferably kept at subsistence level. The inherent insecurity in the system inspires the wish to control and coerce and makes it resistant to reform, for fear of descending “into the hell of disorder” (ibid.).

The state is perceived as needing to be captured, or else petitioned, bribed, forced or tricked into providing services, favours or justice. Senior officials, all the way up to the president, are expected to hold court and to personally intervene on behalf of the many petitioners. In an anecdotal, but telling example, the president was once queried by a listener in a phone-in radio programme, who complained that he had not been able to get an appointment with one of the vice-presidents, due to an uncooperative secretary. The president asked to be provided with the name of that secretary, so he could deal with the man appropriately and ensure that the requested meeting was organised.

Patronage relations require funds, which are often not (officially) provided, and this, in turn, inspires rent-seeking and extortion by government officials. Privileges linked to a job are seen as personal, as is government property, which leads to practices such as the total clear-out of government offices whenever there is a change in leadership (including everything from cars to tea spoons) or the distribution of government land among friends.

Patronage and the personalization of privileges lead to petty corruption, nepotism and factionalized government, which – if implemented in a relatively balanced way – could provide its subjects with a form of crude governance. However, the current level of state capture by powerful (semi-)criminal networks and the increasing mistrust between the various ethnic and factional groups have led to an increasingly skewed distribution of power and privileges, with those in power having ever more to lose and more revenge to fear.

### PATRONAGE POLITICS

It is difficult, if not impossible, to understand Afghan society or politics without proper appreciation of the role of patronage networks. In these networks, power and influence are largely a function of one’s ability to mobilize people (to fight, lobby or vote) and to successfully court powerful patrons of one’s own. It is a game of favours, obligations and portrayal of threat, in which mutual loyalty is consoli-



dated through the regular confirmation of the ability to deliver (protection, hospitality, favours, services). Private wealth, as well as government positions or close relations with the central government and its foreign patrons, have always been important sources of largesse, and this is still very much the case. A person in a position of power is expected to use whatever is at his or her disposal for the benefit of the solidarity group and towards the consolidation of one's position. Ministers or MPs who do not bring benefits to their areas of origin or who fail to provide their tribesmen and former brothers in arms with government positions or services, lose credibility and are unlikely to be supported again in the future.

For those who are being courted, there is a calculation to make: the closer relations they have with the person they throw their lot in with, the greater the expected benefits if he or she should rise to power – but also the greater the chance they are dragged down with him/her in the event of his/her demise. Support is thus promised or implied to multiple actors (also because it is culturally inappropriate, as well as tactically unwise, to explicitly withhold support), and options are kept open as long as possible. As a result, political loyalties are rather fragile and ambiguous and need to be constantly reaffirmed.

The patronage system affects the role and nature of elections. One of the important reasons that President Karzai won in 2004 – other than being seen as a national figure transcending existing factional divides – was the fact that he had powerful international patrons. This made him an attractive patron himself for the many tribal and political networks that chose to campaign on his behalf (many of whom, incidentally, continue to complain that they have not been adequately rewarded). And although in the run-up to the 2005 Parliamentary elections people expressed anger over the fact that former warlords and commanders had been allowed to run for office, many communities still voted for the leaders they had wished to exclude. Not having been marginalised, these leaders remained their best chance for patronage and access to what the government may have to offer in terms of jobs, services and some form of justice.

It is a self-perpetuating system. In a society with few functioning institutions, people rely on their solidarity groups, and even when more or less functioning institutions are established, it is assumed that you will need to know someone on the inside in order to be given the service, appointment or ruling that you seek (such a person is referred to as a *wasetā*, which means connection). Where in the depersonalized realm of Weberian bureaucracies it is considered unethical to intervene on someone's behalf, just because he is a relative or has a loyalty claim (particularly if he or she is not eligible for the service), in a patronage system it is almost the reverse. For this reason, it is seen as only fair that positions are divided somewhat proportionally among solidarity groups. This has resulted in the Cabinet largely being divided along ethnic lines (when a minister is replaced by some-

one from another group, other reshuffles in the Cabinet are needed to make up for the resulting imbalance).<sup>3</sup> In the absence of developed political platforms, electoral campaigning becomes a matter of solidarity group mobilization. The ability to deliver on promises in the future is suggested by providing lavish lunches, gifts and money. Those claiming to represent certain constituencies – be they a tribe, union, political party or professional association – in turn promise to deliver the votes of their constituents.

The main solidarity groups tend to be based on lineage (extended family, sub-tribe, tribe and ethnic group), but people create and add solidarity groups as they go along – as every relationship represents a potential *waset*. As a result, classmates, former colleagues, neighbours and people who have fought together tend to keep in touch and to cultivate their relationship through mutual favours and obligations. These ties often transcend divides that seem most important to outside observers, such as the divide between government and insurgency. Goodhand and Sedra (2006) described this phenomenon quite well:

“Afghans on both side of the conflict consistently subverted the bi-polar logic of their external backers; alliances in the field were constantly shifting back and forth between the mujahedin and pro-government militias. At the micro level, Afghans would have family members in both the government forces and the mujahedin as part of a political risk spreading strategy. . . . In the aid sphere, Afghan actors were similarly adept at manipulating external patrons and creating room for manoeuvre for themselves . . . [as once] the division had been made between friend and foe, funding and support tended to be unconditional.”

This description of the situation during the anti-Soviet resistance remains very much relevant to the current situation.

#### **HOW WINNERS BEHAVE: INCLUSION AND EXCLUSION**

Although the system of patronage hampers the establishment of depersonalized institutions and may affect equal access to services, it is not necessarily harmful in itself, provided that gross abuse of power is circumscribed by social norms. And that is where it often goes wrong, with the twin dynamics of inclusion and exclusion.<sup>4</sup> Powerbrokers and prospective powerbrokers not only try to build coalitions that are strong enough to withstand their adversaries (such coalitions may of course include former and future adversaries), but once they have become more powerful than their rivals, they use whatever is at their disposal to marginalize and beat the rivals into submission until they are no longer considered a threat. The disgraced rivals, in turn, will seek to strengthen their hand and to portray themselves as powerful and threatening, so they become worthy of inclusion again (or better yet, can start marginalizing the power holders). Under peaceful

circumstances this leads to political posturing, unstable coalitions and occasional violence. In a situation of war and chaos, with few practical or moral impediments, this has led to widespread atrocities and a legacy of (former) commanders who feel the need to continue to dominate, for fear of otherwise being subjected to revenge.

This legacy is still strongly felt in the districts of Afghanistan, where local power-brokers continue to prey on potential rivals and often get killed when they let their guard down. Targeting is often very personal, with certain families and sometimes whole sub-tribes being singled out and subjected to violence, forced disarmament, fabricated legal cases or travel restrictions (for fear that they will complain to the authorities). Counter-intuitively, they are often being targeted for having been victims in the past, as the local commander who has killed or dishonoured their relatives fears to be the subject of their revenge.

The process of inclusion and exclusion has not really followed the lines of the international debate which, during the early years, mainly focused on the question of whether former warlords and commanders should be co-opted and allowed a place in government (the debate suggests that there was – at least potentially – such a thing as a clean, largely technocratic government which should be protected from contamination). Instead, we see mixed networks, spanning all imaginable divides. The warlords and commanders who have found themselves on the right side of the inclusion-exclusion continuum have usually managed to reinvent themselves; they have entered the regular political process as Parliamentarians or government officials, have used their influence to secure lucrative business opportunities, both legal and illegal, or have used their ability to mobilize armed men to set up private security companies or to capture parts of the security organs. Often they have done a combination of the above.

Those who have found themselves on the wrong side of the continuum often ended up being “*khana-neshin*” (which literally means ‘sitting at home’), waiting for better days while maintaining some form of constituency and access to government officials (preferably the president). Others have sought inclusion in the opposing networks, and have joined the legal opposition (for instance the National Front) or the insurgency, where similar inclusion-exclusion dynamics apply. Obviously, the different tracks are not mutually exclusive.

In terms of state-building, the inclusion-exclusion dynamic leads to a government that has little tolerance for legal opposition and little trust in their intentions. As a result, it will seek to intimidate, sideline or co-opt any opposition that raises its head. Those presenting themselves as challengers to the government, for instance by candidating themselves in the presidential elections, are often inspired by the hope that they will be considered threatening enough to be courted and co-opted (although they may also be acting on exaggerated assessments of their popular

support, having been promised votes from all sides). As a result, Afghan politics is shaped by political posturing, inflated claims of strength and/or support, and unstable alliances.

### ***Political economy***

Over the decades, Afghanistan has developed a rather robust war economy, with the drug trade, the exploitation of natural resources and the external influx of arms, fuel and financial support as its main elements.<sup>5</sup> The system, which has proven to be highly adaptable to shifts in power, is firmly rooted in solidarity networks and tribal loyalties, while at the same time being closely linked into the global economy.<sup>6</sup> Political power and economic interests have over the decades become intensely intertwined. As a result, access to markets and profits is largely regulated by access to political power and the means of violence, while upward mobility within the government tends to be conditional on the willingness to participate in the existing arrangements (rent-seeking, facilitation of the illicit economy, buying and selling of lucrative positions). International military and development assistance has added an additional prize to Afghanistan's political economy, often distorting existing balances of power and providing opportunities for manipulation and abuse – as it has in the past. This is most blatantly the case with regard to the commanders who were recruited into the US-led 'war on terror', but also holds true for the large number of often very young, English-speaking returnees who were recruited into government positions (or advisers to government) and now have access to immense political and economic opportunities.

Early discussions surrounding the co-optation of warlords into the central government had an important economic angle, as the presence of regional strongmen with their own sources of revenue and their own armies inspired fears of the country falling apart into localized fiefdoms. This is no longer the main theme threatening the integrity of the Afghan state. Instead, there has been an alignment of political and economic interests which includes both the central government and local powerbrokers (and excludes everybody else as much as possible). As a result, the traditional divide between the Afghan state and its society has reproduced itself under this regime as well, leading to widespread disappointment and alienation, with large parts of the population feeling excluded and marginalised. Incidentally, despite analysis suggesting otherwise, this is not limited to a certain ethnicity. All ethnic groups and many social groups (for instance the educated elite, but also the former *mujahedin* commanders) currently have a narrative describing how their group is being unduly wronged in comparison to other more powerful or clever groups. There is, additionally, a widespread feeling of exclusion of the 'common people' due to high-level corruption, indifference and trickery.

Although experts of post-conflict state-building are well aware of such dynamics, it seems that in the mainstream of state-building planning, there was no real

appreciation of the likelihood of state capture by factional and economic interest groups. It would have been better to heed Rubin's (2000) comment, that whatever political group might take control of Afghanistan, the economic incentives for misgovernment are nearly irresistible.

## 7.2 THE NATURE OF THE STATE-BUILDING EFFORT IN AFGHANISTAN

### THE CONFLICT THAT DIDN'T END

The state-building effort in Afghanistan has suffered from the fact that there has been no real end to the conflict. From the very beginning, the international engagement involved simultaneously waging war while attempting to build the peace. There was an ongoing tension between the prioritization of the US-led 'war on terror' and short-term stability on one hand, and the attempts to achieve durable peace through institution building and the establishment of a rule of law on the other. Both strands of the international involvement are now facing challenges far greater than when they started, in the face of an increasingly virulent insurgency, widespread state capture and growing public disaffection. For some reason, however, this has had relatively little effect on the mainstream planning and policy processes. If there is any sense of urgency, it mainly serves to inspire calls for more of the same: more money and troops, more meetings and papers, more strategy and coordination.

### A BEWILDERING NUMBER OF ACTORS<sup>7</sup>

The broadness of the peace-building agenda and the scope of the challenge has led to a bewildering number of actors – with multiple leads, separate chains of command, and their own constituent interests – and a multitude of potentially conflicting agendas. There are three special civilian representatives (UN, EU and NATO), two separate military commands (ISAF and OEF) with 39 countries involved in ISAF alone. A total of 62 countries and institutions re-pledged their commitment at the recent June 2008 conference in Paris, while the JCMB, the board tasked with the oversight and monitoring of the joint effort, has 23 international and 7 Afghan members (including a few shared seats). At least twelve nations have taken the lead in a civil-military Provincial Reconstruction Team, which encourages them to focus their efforts on "their own province". Finally, almost all nations are represented by multiple Ministries and Departments, resulting in a wide range of divergences of effort and focus.

Not only are donors driven by different kinds of motivations – Goodhand and Sedra (2006) distinguish four different approaches: political-strategic, profile political, technical professional and ethical-principled – there is also no real agree-

ment between the various actors on the nature of the joint effort: whether this is essentially a post-conflict reconstruction effort, a stabilization operation, an important front in the war on terror, a broad democratization and modernizing exercise, or – increasingly – a looming humanitarian crisis. There seems to be an implicit assumption that ‘all good things come together’ and that coherence between these different goals can be wrought (*ibid.*). As a result, there has been no real discussion on the dilemmas and trade-offs involved in pursuing these multiple objectives. Individual donors and actors tend to simply press ahead with what they believe is the most essential way forward, while often trying to create institutions in their own image. As a result, the state-building effort is pulled in different directions, with crucial choices in terms of the nature of the government, its electoral system, the police, the drafting of laws, etc. strongly depending on the opinions of the advisers and donors of the time.

### THE RENTIER STATE

The fact that Afghanistan is a recovering rentier state further precludes discussions on what kind of administration and institutions Afghanistan needs and what their responsibilities should be. Instead, institutions are largely shaped to meet the demands of (a certain part of) the state-building exercise. Interventions tend to be informed by a very limited understanding of, or regard for, the consequences for other functions of the state. The fact that there is currently no such thing as a finite budget – anyone with a plan simply needs to find a donor – further undermines the likelihood of establishing government coherence.

Moreover, the state, as envisaged in Afghanistan’s main policy documents, contrasts in many ways with widely held Afghan views of what constitutes efficient and legitimate government, even among those implementing the policies. Such local views tend to be informed by a combination of the ‘enlightened dictatorship’ of King Abdul Rahman Khan and memories of the communist welfare state with its systems of coupons and subsidies. This sits uncomfortably with the free market economy and the implicit decentralization tendencies of many nation builders.

Over the years there have been several strategizing and coordination processes aimed at forging agreement and coherence among donors, and between the international actors and their Afghan counterparts. The most recent strategies include the Afghanistan Compact (2007) and the Afghanistan National Development Strategy (2008). These strategies are accompanied by a rather cumbersome oversight and monitoring structure which includes 29 technical working groups and 13 consultative groups (five of which were on cross-cutting issues). Although the recent simplification of the structure should result in a lower ‘meeting load’ for all involved, the fact that every single new strategy or policy continues to involve the

establishment of multiple high-level committees and lower-level technical working groups means that senior government officials, international aid workers and diplomats are likely to continue to spend an inordinate part of their time in meetings. These elaborate processes of drafting, launching and monitoring have, however, not succeeded in addressing the continued fragmentation of the efforts on the ground, or in bridging the gap between the plans and the actual opportunities for change.

### THE PARADOX OF THE LIGHT FOOTPRINT

Several analysts have pointed to the fact that the international intervention in Afghanistan has been “too little too late”. They point to the UN’s insistence on a “light footprint” (in order to prevent perceptions of occupation), the initial refusal to expand the presence of international military forces beyond the capital (for fear of confrontation) and the US’s initial reluctance to get involved in more than the war in terror (“we don’t do nation building”).<sup>8</sup> Others argue that not enough funds have been made available for development and state-building, pointing to the relatively low level of per capita aid (\$ 57 in the first two years of the intervention, compared to \$ 233 in East Timor and \$ 679 in Bosnia) and the fact that spending on development aid continues to be dwarfed by military spending and plagued by unmet pledges and unspent funds.<sup>9</sup> Then there is the complaint that the international community “took their eyes off the ball” when attention and resources were diverted to the war in Iraq.<sup>10</sup> These arguments, while valid, sit uncomfortably with the reality in Kabul, which feels over-crowded and complex, rather than under-resourced and in need of more of the same.

## 7.3 HOW THE ‘INTERNATIONAL COMMUNITY’ RESPONDS

### POLICY MAKING IN A VOID – THE ASSUMPTION OF A CLEAN SLATE

In state-building there is no such thing as a clean slate. However, after the fall of the Taliban, there was a general sense among internationals that the country’s latest regime change represented, at least potentially, a clean break in Afghanistan’s history, allowing for a new kind of state and society – less conservative and violent and more in line with the rest of the modern world. And indeed, war weariness and widespread optimism instilled by the fact that the whole world had come to Afghanistan’s aid, provided an important opportunity for change. But the excitement of many nation builders to be working on what they considered a *tabula rasa* meant that they were barely aware of, or interested in, the existing institutional structures, cultures, traditions or memories.<sup>11</sup> Instead, they set about constructing and repairing buildings, providing training and introducing procedures.

### INTELLECTUAL EXERCISE AND MAGICAL THINKING

Or rather, they set about designing policies and programmes to bring about these changes. These policies are largely made in a void, as most internationals have had little exposure to Afghan society (many never leave Kabul, other than an occasional trip to a military base or a provincial centre). “Fixing Afghanistan” has thus largely become an intellectual exercise, with intelligent people drafting project designs – on issues such as governance, institutional reform, counter-narcotics, anti-corruption, social outreach or gender equality – which possess an internal logic but have very little relation to the realities on the ground. These documents often have a well-written section on history, background and challenges, but tend to display very little appreciation of how these challenges affect the proposed interventions and outcomes. The language tends to be highly visionary, with great collective effort being put into finding and agreeing on the exact right words to describe the vision or process – as if that may somehow affect reality and bring the vision into being (once it has been signed by an appropriately senior Afghan). This is in essence a form of modern magical thinking. The main tools suggested to affect change tend to be training, capacity building and awareness raising, which are rather inadequate for the tasks at hand.<sup>12</sup>

The number of people involved in collective policy-drafting processes in Afghanistan, at any given time, is staggering. The process is believed to bring about consensus and broad-based buy-in from both the international actors and their Afghan counterparts, and the agreements reached are regularly used to remind the other side (usually the Afghans) of their commitments. The implementation tends to be problematic, however, for a variety of reasons.

Underlying the recurrent drafting of policy documents is the assumption of a functioning bureaucracy, where once a policy is passed up (or down) the chain, there are practices and procedures that ensure that decisions and plans are appropriately disseminated and translated into action – as is the case in the societies most nation builders come from. In the absence of a coherent bureaucratic system, each step up or down the chain needs to be coaxed or negotiated and may be stalled by lack of capacity or cooperation. As a result, it is not in the first place the quality of the plan that counts but the skills of those wishing to effect a policy to deal with the various personalities and their – often very parochial – interests, at the different levels. The international partners tend to lack the necessary skills and depth of interaction.

### “ASSUME THE EXISTENCE OF A STATE”

Institution building in Afghanistan leads to a staggering number of chicken-and-egg dilemmas, where the thing you seek to establish eludes you precisely because



it is not there in the first place. How do you, for instance, establish procedures when there are no agreed ways of doing so, or how do you introduce checks and balances when there is no system to ensure the fair implementation of sanctions, or how should you address crime and corruption when the executive, legislative and judiciary are all implicated?

Such dilemmas are in practice often ‘solved’ by simply assuming the existence of the things that are not there. Rubin (2008a) calls this the “can opener assumption”. The “can opener assumption” is based on a joke about a chemist, a physicist, and an economist who are stranded on a desert island with only canned food and who are discussing how to open the cans. According to the economist “the problem is very simple: first, assume the existence of a can opener”. In the case of Afghanistan, the solution is very simple: assume the existence of a state (or legitimacy, or trustworthy partners). Paris (2004) suggests something similar, when he argues that modern students of the liberal peace tend to “bracket” or ignore the question of whether functioning governments exist. He argues that establishing institutions should take precedence over establishing “liberal democracy” but does not elaborate on how this should be done.

This “assumption of a state” means that responsibilities are assigned to largely imaginary institutions. These institutions are made up of people who may inhabit the offices belonging to their positions, but are otherwise largely pursuing their own agendas. They look like institutions to us, because we assume that the people involved somehow identify with their assigned (depersonalised) tasks and responsibilities. Afghans, however, immediately recognize the amalgams of interests, intrigues and potential sources of patronage.

This disfunctionality of such institutions is often addressed by the creation of ‘temporary’ support structures, which involves hiring a large number of technical advisers or establishing temporary secretariats and reform management units. They are supposed to nurture and capacity-build the existing structures, but rarely do. Such temporary structures can be extremely elaborate and often overshadow the institutions they are supposed to support, in terms of resources and educated staff. The Secretariat established in support of the Afghan National Development Strategy (ANDS), for instance, was at some point so overloaded with seconded experts and advisers that a suggestion was made to place a whiteboard at the entrance for people to write their names and job titles on – to provide some form of clarity of who was there and what they were doing. It never happened.

#### **SKIPPING STRAIGHT TO WEBER**

Most state-building policies in Afghanistan are characterized by an immense impatience to “skip straight to Weber” – i.e. to seek to quickly reach service

delivery performance goals by simply mimicking the organizational forms of a well-functioning state (Pritchett and Woolcock 2002). Reform is thus understood as the introduction of new and rationalized structures and procedures. There tends to be little appreciation of what it takes to change entrenched relations of power and dependence, or to realign the norms and interests that shape people's behaviour. But changing the terms of references of institutions does very little to alter the fact that Afghanistan remains a society where it is irrational to trust strangers and where the state is a prize to be captured and used.

On a more practical level, there is a problem with appointing often junior practitioners to be responsible for what is in essence major change management. Or as Pritchett and Woolcock (2002) point out:

“Donor activity often amounts to sending ‘experts’ who operate institutions in ‘Denmark’ to design institutions in ‘Djibouti’. At best this would be like sending a cab driver to design a car. But it is worse, because institutions come with their own foundational myths that deliberately obscure the social conflict the institution was designed to solve.”

In many cases procedures are introduced that even in functioning bureaucracies are considered cumbersome and counter-productive, while the absence of effective monitoring and sanctions mechanisms means that the gains in terms of transparency are minimal – particularly when it concerns highly political processes such as appointment practices.

### **MISTAKING PROCESS FOR PROGRESS**

The momentum of policy-making leads to all kinds of activities. These include the establishment of working groups, the collective drafting of papers, the signing of agreements, the allocation of money, and the hiring of additional staff. As these are all activities that can be reported on, they are often taken to be signs of (potential) progress, without adequate acknowledgement that on the ground there has been no effect at all. With the situation in Afghanistan becoming increasingly worrying, the pressure from capitals and headquarters to be provided with reports of progress has increased – in order to be able to sustain the defence at home of the continued investment of troops, money and political reputation. This threatens to cloud the analysis of what is happening in terms of actual state-building on the ground.

A common mistake in this respect is to cite how much money has been spent or committed, when faced with accusations that too little is being done in terms of reconstruction. This usually only strengthens local perceptions that money has been wasted, redirected or unwisely spent.

## THE AFGHAN LEAD

There is an uneasy tension between the heavy international footprint in Kabul's policy-making processes and the wish to somehow be unobtrusive and respectful towards an 'Afghan lead'. As a result, many international partners feel they should operate cautiously and are no longer in a position to speak their mind, for fear of being overly overbearing. At the same time, the deep frustration over where this Afghan lead is taking the country leads to ad hoc interventions and occasional arm-twisting.

The concept of the Afghan lead as a guiding principle is based on the assumption of a shared agenda and a unity of effort. But in a low-trust environment where being ousted from power can have far-reaching personal consequences, it is unlikely that government officials – at all levels – and even those who act in good faith – will be in a position to (voluntarily) implement the procedures and measures that are needed for meaningful reform. As a result, instead of being in the lead, government officials are often outwardly conforming to 'jointly' agreed programs and measures, while minimally complying. When it comes to difficult issues such as disarmament, counter-narcotics or vetting, the Afghan lead often boils down to the appointment of an Afghan chairperson for a joint steering committee or working group and an Afghan signature under a plan largely drafted by international consultants – with the international actors regularly reminding their Afghan counterparts of the joint commitments made, in an effort to ensure their implementation.

As Goodhand and Sedra (2006) point out,

"Afghanistan highlights the limitations of an orthodox development model in contexts of ongoing conflict. Whilst donors propound ideas of ownership and policy dialogue, it is unclear how these can usefully be applied in contexts of fractured government. Such models do not engage sufficiently with 'poor performance'. They provide an ideal type model but with no road-map for how one reaches this end-state. Rather than seeing ownership and conditionality as two opposite ends of a policy spectrum, one can view the latter as a necessary instrument for moving towards the former".

The other side of the coin to the Afghan lead is the international mentor. The relationship is illustrated by a recent anecdote of a police director who was provided in a meeting with an unhelpful suggestion by his newly arrived mentor. He turned to him and said, "Yes, you're right, Bob," and continued to say the exact opposite in Dari. After Bob had left, he turned to the other internationals in the room, with whom he had been working on the subject of the meeting for a long time, and said, "This is the problem with us Afghans, we always agree with you, even when you're wrong, and then we go and do what we want anyway".

### ENGAGING THE TRIBES

Faced with weak government, an increasing insurgency and limited access to the country's rural areas, Afghanistan's nation builders have discovered the tribes. Sweeping statements are made – regarding the traditions, cohesion and mobilizing powers of these tribes – based on casual conversations between diplomats and (often detribalised) Afghans and the reading of outdated literature. It is for instance somewhat comical to read how an analyst, who has written several publications on the Taliban and the tribes, quotes an elderly Pashtun from 1809 to illustrate that the Pashtuns continue to be a “hard case” for any government seeking to establish central authority (Johnson 2007).

Programmes are now increasingly being designed to “engage the tribes” and to provide resources so tribal leaders can work their magic and bring about local security and support for the government. Such programmes tend to be driven by the multiple and possibly conflicting agendas of local state-building, counter-insurgency, election campaigning and the manipulation of foreign funding. They lack a grounded analysis of the current state of Afghanistan's tribal structures and do not sufficiently take into account how developments such as the various state-building efforts, regime changes and international interventions, but also tribal politicking, insurgent terror and modernization, have impacted the nature and coherence of Afghanistan's tribes.<sup>13</sup>

This is not to say that the tribes are irrelevant – on the contrary. There can be no sound political analysis without understanding the various tribal affiliations and conflicts, and there can be no meaningful outreach without engaging local tribal leaders in any given area. But the romanticization of ‘the tribes’, without adequate appreciation of the fragmentation of social structures – with many leaders killed, terrorized or in exile, and many of the young men no longer listening to their elders – is unhelpful. Treating the tribes as a shortcut to a solution instead of a dynamic that needs to be understood has all the flaws of “skipping straight to Weber” in that it establishes yet another imaginary institution. Moreover, the discussions on traditional structures tend not to interact with mainstream institution-building. This results in separate tracks of interventions, which theoretically could interfere with each other, but in practice probably lead to an ever increasing “institutional multiplicity”.<sup>14</sup>

## 7.4 SOME CONCLUDING REMARKS

State-building in Afghanistan is a highly daunting enterprise. Faced with the outcome of the efforts so far, some feel the need to retreat from the broad peace-building and modernizing agenda and to argue that Afghanistan was in essence “not ready” for this. Others suggest that the intervention was doomed to fail, as it

sought to propagate “Western values” and introduce “Western systems” that do not sit well with traditional structures and beliefs. There is a growing tendency to point to traditional mediation mechanisms or tribal value systems to make the point that Afghans already have a functioning society and have no wish for it to change – a position that I believe most Afghans would strongly disagree with. The problem is not that the population was resistant to change or that promises of democracy and human rights did not resonate with them; the problem is that the promises were not delivered and that disfunctional social and political dynamics were allowed to replicate themselves in the new structures and organizations. Interventions in their current form, unfortunately, seem ill-equipped to prevent state capture and the consolidation of exploitative and predatory patterns of behaviour, with energies largely focused on the building of institutions that exist mainly on paper and in meeting rooms.

The question then remains whether the ambitions of establishing a somewhat functioning state with relatively fair institutions in such a short time span are attainable and what kind of interventions would be best suited to achieve this. Probably, you would want fewer and better targeted initiatives, a smaller but better informed group of actors, home constituencies that have more patience, and projects that are less costly and probably more labour intensive. You would need a considerable scaling down of ambitions, without a cynical selling out of core values. However, the continued, slightly desperate push for ‘success’ within the confines of the current peace-building effort is not conducive to the frank exploration of such matters or to the learning of lessons that need to be learnt.

## NOTES

- 1 See for instance Paris (2004) who makes the point that states transiting towards a more democratic system are actually more vulnerable to instability and violence than other types of states, due to the weakness of their institutions. He argues that institutions should be strengthened before a country embarks on a process of democratization and marketization. He does not address the question of *how* institutions should be strengthened in post-conflict low-trust environments, often dominated by armed interest groups and semi-criminal networks.
- 2 See Rashid (2008) and Goodhand and Sedra (2006) on how the focus on the 'war on terror' undermined the peace-building and reconstruction effort and strengthened armed groups. See Ruttig (2008) for an analysis of the flawed democratization process, and see Suhrke (2006 and 2007) for a critique of the modernizing ambitions of the exercise.
- 3 Although such patronage-based appointment practices are frowned upon in the context of state-building and institutional reform, appointments in international organizations, such as the UN and the EU, often display very similar dynamics.
- 4 Semple describes this as the 'insider-outsider dynamic' in a forthcoming paper on reconciliation. The dynamic is also easily recognisable in the description of the 'natural state' by North et al. (2005).
- 5 See Rubin (2000) for a description of the historical development of the war economy in Afghanistan and Goodhand (2003) for a mapping of the war economy in 'peacetime'. Rashid (2000) and Nojumi (2008) describe the role of the cross-border transport mafia during the emergence of the Taliban, supporting them as a force that could ensure road security (at the moment there is so much money to be made out of road *in*security, through for instance private security companies, that it seems unlikely that a similar force will re-emerge in the near future).
- 6 See Rubin (2008b) for an interesting description of the complexity of the Afghan drug trade, belying the notion that Afghans lack "capacity" and are somehow not capable of organizing their own society and economy.
- 7 The current discussion limits itself to the actors, actions and agendas that fall within the UN-sanctioned framework of assistance and intervention. There are obviously many more agendas and actions that shape and interfere with the state-building efforts in Afghanistan.
- 8 See for instance Ruttig (2008) Rashid (2008) and Goodhand and Sedra (2006).
- 9 See for instance Waldman (2008) for an analysis of aid effectiveness in Afghanistan.
- 10 See Rashid (2008) and Rubin in various publications.
- 11 Publications such as *A Guide to Government in Afghanistan* (AREU, 2004) described the surprising resilience of government institutions and were an eye-opener to many internationals, who had assumed the total collapse of the state apparatus as a result of the many years of war and dysfunctional rule.

- 12 See Lister (2007) for a dose of realism on reform policies for subnational administration: "Both national and subnational powerholders continue to control appointments, and exercise patronage in a variety of ways through acting as 'gatekeepers' to the state and its resources. (...) The flow of international funds to the subnational level, much of it through the hands of the international military, has also served to increase the rewards for those who are able to manipulate the formal rules in a way that continues to allow them to operate according to the informal ones, while maintaining the appearance of 'reform'. In this context, the persistent response by the international community in promising to provide 'capacity-building' at the subnational level to address the 'problems of subnational administration' seems naïve in the extreme."
- 13 Recent studies that make important observations about the state of Afghanistan's tribal society include Edwards (2002), Trives (2006), and Sinno (2008), but the total scope of the literature remains very limited.
- 14 Institutional multiplicity as described by Di John (2008) is "a situation in which different sets of rules of the game, often contradictory, coexist in the same territory, putting citizens and economic agents in complex, often unsolvable, situations, but at the same time offering them the possibility of switching strategies from one institutional universe to another. Often the interventions of the international community simply add a new layer of rules, without overriding the others. In such situations, the conventional political economy of state modernization – which suggests that if the state establishes an appropriate set of incentives and sends the correct signals political and economic agents will follow suit – is clearly insufficient." The effect of this can be seen throughout the state-building effort in Afghanistan.

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## 8 BEYOND DEVELOPMENT ORTHODOXY: CHINESE LESSONS IN PRAGMATISM AND INSTITUTIONAL CHANGE

*Peter Ho*

After more than half a century of experience, the development sector is still haunted by ‘old spectres’ such as the effectiveness of development cooperation; human rights in development; and conditionality versus corruption. The fact that politicians, academics and development practitioners alike are vexed by these questions has led critics to conclude that development cooperation has had no measurable effect on development (Bauer 1988; Dichter 2003).<sup>1</sup> It is not this chapter’s intention to engage in this debate, rather, it argues that development cooperation might be helped if we would shed the “orthodoxy of development” and open our eyes to the implications of the development of the newly emerging economies. I will substantiate this by zooming in on one of them: China. After a brief introduction on the relevance of the Chinese case for our understanding of development, the chapter will turn to a detailed analysis of China’s development by focusing on its pragmatic nature. It will be demonstrated that Chinese pragmatism is built on the principles of credibility and gradualism. This will be demonstrated by examining the type and timing with which core institutions are (or aren’t) introduced into society.

### 8.1 BURIED UNDER DEVELOPMENT?

To date the development sector categorically overlooks important lessons, such as those of ‘bottom-up development’ and ‘country-drivenness’. The reader now probably turns away his attention in disappointment, expecting to read just another critique of development, with just another set of tiresome policy recommendations, and just another reiteration of development rhetoric. Haven’t we been bombarded enough with terms like country-drivenness and ownership?<sup>2</sup> Haven’t we been buried enough by a plethora of manuals on bottom-up, participatory, or whatever development?<sup>3</sup> We have been, and this is the reason why we should steer away from rhetoric, and act instead. Re-examining the criteria of bottom-up development and country-drivenness in the context of the world’s largest emerging economy will make this clear.

#### COUNTRY-DRIVENNESS

Thirty years ago China was a Third World country with widespread poverty, little industrialization, and a low level of education. When the Communists assumed power, China was *de facto* bankrupt as the Kuomintang had taken the entire gold reserve from the national coffers on its flight to Taiwan. Today, the Chinese nation

has appeared on the world stage as a globalizing force in every sense. For one thing, this rapid development is *not* the result of development cooperation. The government, rather than bilateral and international donors, has played the main role in kick-starting and channelling the phenomenal growth of the past quarter of a century. Defying recipes of structural readjustment programs and a “Washington consensus”<sup>4</sup>, the Chinese authorities adopted a cautious approach in the dismantling of the socialist planning economy. The economy was gradually exposed to foreign capital and market forces through the creation of Special Economic Zones (SEZs), joint ventures, and a non-convertible, and later partly convertible currency.<sup>5</sup> In the wake of a crumbling socialist ‘Second World’,<sup>6</sup> the Chinese were confronted with a strong international pressure for the privatization of land, labour and capital.<sup>7</sup> Despite the pressure, land remained in state and collective hands; labour remained governed through the Household Registration System or *hukou* system;<sup>8</sup> while capital remained tightly locked in state companies and banks. Even after many years of rapid economic growth, China’s economy is still a state-dominated economy (Pei 2007).

This feature of Chinese development – driven by a state that carves out its own trajectory – is the precondition of ‘country-drivenness’. Only when this precondition has been met can donor and recipient collaborate as equals, and country-drivenness can be more than rhetoric. For a developing country to ‘own’ its development and thus to “exercise effective leadership over development policies, and strategies” as conceived in the Paris Declaration (Paris Declaration on Aid Effectiveness 2005: 3), it is inevitable that country-drivenness becomes a negotiation point. It implies that the recipient may demand aid but can also “say no”.<sup>9</sup> This seems a contradiction in terms: a country that *owns* its development might *not* need help. As He and Söderberg (2005) noted with a tinge of exaggeration and irony: “at the government level in Beijing, Official Development Assistance is seen as seed money, a window for contacts with foreign experts and technologies or as cheap financing”.<sup>10</sup>

#### **BOTTOM-UP DEVELOPMENT**

Being one of the few countries spending the 0.7 per cent GDP norm on development cooperation,<sup>11</sup> politicians face a strong political pressure to account for development programs. After the elections are over and a new Minister of Development Cooperation has assumed his/her responsibilities, a vexing question invariably pops up: which developing nations should be on the ‘country list’<sup>12</sup> and which shouldn’t? The question leads to another: can we justify giving aid to rapidly emerging economies, such as Brazil, Russia, India and China? Bottom-up development is built on the premise that aid effectiveness is a function of the information from the grassroots. This postulates that we are aware of the local context. The irony is that if we *were* aware, we would not be asking ourselves whether a country is eligible for aid.

Keeping a country list is an oversimplification of development. The World Bank employs a development classification ranging from low-income, lower-middle-income to high-income countries, under which the latter are defined as countries with a gross national income per capita of over US\$ 11,116.<sup>13</sup> Narrow classifications of development, albeit crisp and clear, have been contested without exception. Some argue for an integrated approach by which development is not only defined in economic terms, but also in relation to the industrial base, infrastructure, and the scoring on indicators like literacy, life expectancy, and level of education.<sup>14</sup> Others find a solution in exploding diversifications of acronyms and labels – “Failed States”; “NICs” (Newly Industrializing Countries); “BEMs” (Big Emerging Markets); “DCs” and “LDCs” (Developed, Less Developed and Least Developed Countries).<sup>15</sup> To add to the confusion, the United Nations maintain that high-income countries are not necessarily developed, but may also be developing countries (UNCTAD Handbook of Statistics 2005).

Rather than engage in increasingly complex acronyms or fine-tune an ever-expanding set of indicators, it might be more insightful to formulate development policies case-by-case. It means reverting to the principle of bottom-up development, and trying to understand what happens at the grassroots. With the largest foreign reserves in the world, US\$ 1.6 trillion and counting, many wonder whether China’s development needs any international support.<sup>16</sup> Not only does China appear quite capable of handling development single-handedly, it has also begun to provide development aid itself. High-rising apartment buildings; masses of well-dressed, well-educated urbanites; and ten-lane highways interspersed with light-rail and high-speed Maglev tracks – the Chinese urban landscape appears similar regardless of whether one visits Beijing, Shanghai or Chongqing (with 31 million inhabitants the world’s largest urban conglomerate).

At the same time, however, Chinese development features a growing rift between rich and poor. Just a few thousand kilometres northwest of Shanghai, farmers still live in cave-dwellings without running tap water and electricity, let alone sewage. This part of China is popularly known as the Loess Plateau. It stretches over a vast area of 628,800 km<sup>2</sup> covering seven provinces and autonomous regions (Shanxi, Inner Mongolia, Henan, Shaanxi, Ningxia, Gansu, and Qinghai). Due to its locked position, arid, erratic climate conditions, and highly erosive soils, the population there is virtually condemned to poverty (Ho 2003a). Furthermore, even in the booming cities, China struggles with daunting developmental problems, such as environmental degradation due to an explosive industrialization; urban sprawl due to an uncontrolled urbanization; and rising social tensions because of a weak rule of law. Exactly because of this contradictory development, opportunities for development cooperation are opened up that would not be suited in, for instance, a West African or Central Asian context.

Thus, contrary to the idea that development programs are merely a matter of ‘seed money’ in emerging economies, such as China’s, they do have a crucial role to play. If we just look at China’s booming cities, we scratch the surface of Chinese development and overlook novel areas for development cooperation. There is a great need and demand for collaboration in new, but highly complicated areas of institution building, such as the restructuring of the financial sector, public administrative reform, civil society development, urban management, and environmental infrastructure planning. As China is increasingly formulating its own development policies for Africa, one might even imagine the development of joint Sino-Western aid programs. These could not only pool together financial and material resources, but also the expertise and experiences of former colonizers and colonized, of ‘old’ and ‘new’ donors. Understanding that China combines a First and Third World in one and formulating development policies accordingly is what “bottom-up development” entails. Rather than employing indicators and country lists, we must look at countries case-by-case to determine the precise form of development cooperation.

Apart from rethinking country-drivenness and bottom-up development, the Chinese case also provides us with general insights about development. When writing about development and its effectiveness, there is a risk of falling into the same trap of reiterated rhetoric as many well-intended development manuals did. This is why it is better to refrain from new terms, and *when* these are employed, to demonstrate their meaning from the developmental context. The success of China’s development model is propelled by one principle: pragmatism. Since the beginning, China’s reforms have been guided by it, for three decades at the time of this writing.

## 8.2 ON LAND AND INSTITUTIONS

When looking for expressions of Chinese pragmatism, one might best turn to the institutions created by the state, particularly to their type and timing. Institutions are identified with a cultural purpose and permanence, transcending individual lives, intentions, and generations, and are identified with the making and enforcing of rules governing cooperative behaviour. As such, institutions are hypothesized to be a major determinant affecting cross-country differences in development. There is considerable confusion over the word “institution” as it is used by economists, sociologists and political scientists, each with their own interpretations.<sup>17</sup> Here a straightforward definition is used: “the rules of the game in a society” (North 1990: 3) or, simpler, social rules. The question is which institutions do we look at if we want to comprehend development in its multi-faceted dimensions? Should we look at economic institutions, such as central banks or transnational corporations? Or should we perhaps turn to political institutions like parliament or political parties? Furthermore, should we limit ourselves to formal

institutions sanctioned by the state, or should the analysis include informal institutions shaped through customary practices? Rather than applying the analytical lens on institutional classifications, is it more clarifying to redirect our gaze to the *resource* around which institutions evolve. We can then most clearly demonstrate a state's interventions in development. In a different wording, zooming in on the structuring of the means of production – land, labour and capital – might be most useful in clarifying institutions' form and substance over time and place. For this purpose, we will zoom in on land, which as Simpson stated is “the source of all material wealth” (Simpson 1985: 3). Starting from this premise, it is not hard for us to see that land is at the centre stage of Chinese development and, as such, is a continuous source of negotiation and contestation between social actors. There are three major reasons for this.

First, different from the other means of production – capital and labour – land governance is still one of the last vestiges of Communism in China today. Land is largely controlled by the state and is central to its decisions about the “future of the nation”. State intervention in land governance is reflected in many ways. Instead of privatizing land as neo-classical economists advocate, the state still firmly holds on to land ownership. In addition, in many regions land has purposefully *not* entered formal registers, which implies that ownership, use and boundaries are unknown or at least open for continuous government intervention. The land ‘market’ can hardly be labeled as such, due to the bureaucratic and regulatory restrictions imposed by the state.

A second reason why land is critical in Chinese development is because it is a source of disproportional wealth accumulation. Real estate tops the list of China's ten most profitable industries.<sup>18</sup> The average profit in Chinese real estate is 15 per cent per transaction, which is 3 times the world average. Yet, as the following example illustrates, even higher profits can be made. When the Beijing government requisitioned land from Liuquan Village near the southern section of Beijing's Fourth Ring Road, farmers received only 177 RMB per square meter. The same land was sold two years later for 6,750 RMB per square meter (Editorial 2006: 4). It is therefore not surprising that among the 100 wealthiest Chinese business leaders, more than 40 were in real estate.<sup>19</sup>

Finally, due to the substantive economic stakes in it, land is an important source of contestation. The weak protection of land rights combined with the urban sprawl has led to social unrest in the countryside. Entire villages have been torn down for urban and infrastructure development (Ho 2003b). Scandals of land conflicts and corruption regularly hit the international headlines: ING Bank was involved in the forced demolition of a Beijing neighbourhood, Hebei peasants resisting their forced eviction were beaten up by property developers (NRC Handelsblad 2006: 23), while the Chinese Minister of Land Resources was arrested because of clan-

destine land deals.<sup>20</sup> Furthermore, an old social problem – believed to have vanished since the founding of the People’s Republic – returned with a vengeance: landlessness. It is estimated that over the past decade more than 66 million Chinese farmers have lost their land due to evictions (Li and Bruce 2005). Apart from the social dimension of the evictions, there is also an economic twist as farmers lose their livelihood with the loss of land. After the abolition of the agricultural taxes, landlessness has become a prime factor contributing to the widening of rural-urban income disparities (Young 2007). In a groundbreaking speech for Communist party cadres, China’s premier Wen Jiabao acknowledged the urgency of the land question:

“The reckless occupation of agricultural land creates large numbers of landless farmers and presents a grave problem that threatens the sustainable development of the countryside, as well as our economy and society.”<sup>21</sup>

It is obvious that China’s modernization has incited fierce conflicts. At the same time, however, China has urbanized and industrialized at a breakneck average growth of approximately 9 per cent per year, sustained for the past quarter of a century.<sup>22</sup> During the difficult transition to a market economy, other ex-socialist economies such as Yugoslavia and the former Soviet-Union met with socio-economic and political disintegration. China, on the other hand, has been able to maintain the unity of the nation-state despite its size, regional diversity and booming economy.

The underlying reason for China’s transitional success must be sought in the way the state shaped its development interventions over time, more specifically, how institutional change was introduced and channeled. After a turbulent period of socio-political upheaval with ‘Great Leaps Forwards’ and ‘Cultural Revolutions’, China was the first country among its ‘Second World’ socialist brethren ever to embark on economic reforms.<sup>23</sup> This implied that the Chinese state groped in the dark when implementing the nation’s largest social experiment since its establishment in 1949: a full turnaround from central planning to a market economy.<sup>24</sup> Knowing the Communist excesses and planning failures of the past, but ignorant of historical examples to restructure the economy, there was no other path than to forge ahead through praxis. *This* is the breeding ground from which pragmatism sprang.

Chinese pragmatism has two distinct features: credibility and gradualism. The former implies shedding ideology in favour of seeking that which works, while the latter implies keeping an eye on the role of time. Nowhere are these features more visible than in the institutional change around land.



### 8.3 CHINESE PRAGMATISM: COLORED CATS OR THE DEMISE OF IDEOLOGY?

The history of 20<sup>th</sup>-century China is in many ways a chronicle of land policies. During a time when China was torn by war, Mao Zedong built his rural power base with the promise of “land to the tiller”. It gained him victory over the Nationalist forces of Chiang Kai-shek in 1949. Soon after, land reform was used again to consolidate Communist control over society during the late 1950s. With the overthrow of the rural elite – rich peasants and landlords – land reform turned the traditional social structure topsy-turvy and heralded the end of an era. The movement culminated in the establishment of the People’s Communes – huge structures that pooled labour, capital and land (Madsen 1991: 624; Lippit 1974: 98-100). Twenty years later, China once more began an unprecedented social experiment – the transition from a centrally planned economy to a market-based economy. Few observers know that the economic reforms started around land. After decades of collectivism, the farmer was reinstated as the steward of land by allowing him to lease it.

What in the late 1970s started as a regional experiment in institutional innovation in a central-southern Chinese village had by the mid-1980s evolved into a nationwide model. The “Household Contract Responsibility System”, as the agricultural lease system was dubbed, led to two significant changes: 1) the demise of the People’s Communes – unforeseen and unintended by the central government; and 2) the shedding of Maoist ideology in favour of pragmatism.

Sceptics ask, what might we learn from China’s experience, if not the fact that authoritarianism, corruption, and environmental degradation go hand in hand with explosive development? While recognizing the multitude of problems that China’s emerging economy still struggles to overcome, it might be critical for the understanding of Chinese development to recognize the role of pragmatism. The essence of this 19<sup>th</sup>-century, American-bred philosophy is the postulate that any ideology is true, as long as it works (Stuhr 1999). This spirit is reflected in the pithy aphorism of the late Chinese president, Deng Xiaoping: “It doesn’t matter if a cat is black or white, so long as it catches mice.” Stating this when China was still dominated by Marx-Leninist and Maoist ideology was a measure of the resolve of China’s foremost economic architect to shed orthodoxy and seek for practical measures instead.

#### CREDIBILITY AND EMPTY INSTITUTIONS

According to a main theorem in neo-classical economics and development theory, the privatization, formalization, and commodification of land are crucial for sustained economic growth. Only when individuals can claim their land; prove it

through a properly registered title; and freely prize and transfer it, can land realize its full potential.<sup>25</sup> This theorem can be traced back to the writings of Coase (1960) on the relation between property rights assignments and pareto-optimal outcomes, and Gordon (1954) on the over-exploitation of resources held under open-access.<sup>26</sup> In this line of reasoning, a clear assignment of institutions, such as property rights, is a condition for economically efficient resource allocation and, eventually, environmental sustainability. The writings of the so-called property rights school provided the legitimization for the privatization of land, as the sole most efficient and secure institutional arrangement (Dorner 1972; World Bank 1974; Johnson 1973). The ambition to establish private, secure property rights justified large-scale land titling projects undertaken by multilateral and bilateral aid agencies around the world. Although the ascendancy of the principle of private and secure property rights has never been as complete as its critics or proponents might want us to believe, the arguments of the property rights school remain influential to date (Miceli et al. 2000: 370 and 387).

Since the beginning of China's economic reforms, the issue of privatization has loomed over the political agenda. The debate over privatization flared up periodically, for instance, following the Russian *perestroika*, 8 years after the start of Chinese reforms, and recently in the run-up to the adoption of one of China's major pieces of legislation: the 2007 Property Law (Wong 2007). Despite the pressure, China never followed ideological prescriptions in the design of land-based institutions other than practising that which works. In this way, China avoided the establishment of "empty institutions" (Ho 2005: 2-20) whereby new rules merely exist on paper, are generally unenforceable or even contested. Instances of such empty institutions abound in the transitional experiments of the former socialist Second World. In the mid-1990s, economies-in-transition such as Albania, Armenia and Kyrgyzstan opted for the outright privatization of land resources to stimulate a market, but with destabilizing effects on the rural economy. Following several years later, Moldova went through a sweeping agrarian reform and titling process from 1998 until 2000, with equally disastrous results. As an observer noted: "One hope of privatizing land was to bring Moldova into a market-economy. This has not happened." And worse: "the Moldovan land tenure system appears to be in danger of failing to protect land rights of property owners" (Brown 2002: 1).

By contrast, the Chinese state's main criterion is *not* the measure of privatization, formalization and tenure security, but the *credibility* or degree of social support that institutions rally.<sup>27</sup> The appeal of the Chinese approach is that it charts a possible way out of the eternal debate over state intervention versus market forces; formality versus informality; and tenure security versus insecurity. By accepting credibility as the criterion for institutional change (or no change), it no longer matters whether an institution is formal or informal, privatized or communal,

secure or insecure. Moving beyond dichotomies implies the recognition that institutions are neither the *resultant* of socio-economic, cultural and historical parameters, nor their *determinant*. Instead, we should stop conceptualizing institutions in terms of cause and effect or ‘chickens versus eggs’, and instead see the matter of *interaction* by which they affect change, while being affected. Inglehart could not have put it more succinctly when he stated:

“Economic determinism, cultural determinism, and political determinism are all oversimplified: the causal linkages tend to be reciprocal” (Inglehart 1997: 10–11).

However, this postulate poses an immediate problem to the quantitative stream in the social sciences that aim to measure, test and validate social relations. Interaction is hard to convert into numbers, as dependent variables cannot be independent variables at the same time. Social scientists have long struggled to find a way out of this methodological dilemma. As Putnam attempted:

“Taking institutions as an independent variable, we explore empirically how institutional change affects the identities, power, and strategies of political actors. Later, taking institutions as a dependent variable, we explore how institutional performance is conditioned by history” (Putnam 1993: 8).

Credibility was originally seen as a vital element in the success or failure of monetary and anti-inflationary policies (Fellner 1979, 1976; Kydland and Prescott 1977). With a short-lived scholarly spill-over to international relations and policy analysis (Brands 1988; Martin 1993), it was later hypothesized to be critical in the economics-of-transition. According to some scholars a credible transition strategy should typically include such measures as the state’s abstinence from discretionary intervention, the protection of private property rights, and a fully convertible currency (Weimer 1997). Grabel, however, rightfully warns that the credibility argument should not be used “to discredit and prevent the implementation of all *non*-neoliberal economic programmes, including gradualist reforms in some former Communist countries” (emphasis added; Grabel 2000: 1). Against this backdrop, the renewed discussions on economic transition through incremental change rather than through “shock-therapy” have provided a renewed interpretation of credibility (Sjaastad et al. 2009; Lahiff et al. 2007). We should not view it as “the perceptions of economic actors regarding the commitment and capacity of the government (...) to preserve” institutions “in laws, regulations and other formal rules”, as Newman and Weimer maintain (Newman and Weimer 1997: 252). Credibility has nothing to do with government capacity but is a measure of social actors’ commitment to the institutions that govern them, *irregardless* of their external form and substance (Ho 2006; Chen 2007).

The question that pops up in the mind of a pragmatic policy-maker would probably be: can we measure credibility? If we can, governments have a powerful instrument in hand with which to design institutions. Yes, we probably can measure credibility, but does it matter? For one thing, to assess credibility it does not suffice to go out into the field and simply ask someone's opinion about an institution's level of credibility. There is neither scientific nor practical value in asking a passer-by on the street whether he or she views, for instance, the central bank as credible or incredible. People might support a nation-state's overall institutional constellation, yet simultaneously loathe a particular government because of certain politicians by whom it happens to be represented. If we truly aim to measure credibility, the concept needs to be operationalized through proxies, such as the level of conflict that an institution generates; the extent of 'institutional robustness' expressed as a function of institutional lifespan and flexibility; the degree to which an institution facilitates or frustrates overall socio-economic, political and cultural change; and the extent to which an institution fulfils the functions it ought to perform in the eyes of social actors. This inevitably means going down to the grassroots to probe into individual actors' perceptions and lived experiences.

However, and a sharp warning is justified here, measures of credibility should not serve as an argument to impose institutions, as it is the government's task to *channel* institutional change not to *design* it. The evolution of China's "Household Contract Responsibility System", which replaced the People's Communes' centralized system of land management and use, is a clear case in point.

#### CONTRACTING HOUSEHOLDS THROUGH LEASE

Under the new system of agricultural lease, land ownership in China was not privatized but stayed vested in the collective. Moreover, throughout the 1980s and 1990s, the lease was not formalized through standardized, notarized and registered contracts but remained a matter of informal, even oral, agreements between the village collective and farmers. Lastly, although farmers, at least on paper, received a 30-year lease term, tenure was anything but secure as land was redistributed once every five years or so.<sup>28</sup> According to neo-classical theory such an institutional architecture would have a negative impact on environmental sustainability and economic development. Under these conditions farmers will not invest in the land and, worse, will only mine it for short-term profit.<sup>29</sup> In the absence of legally protected, private property rights, farmers cannot sell or mortgage land. Failing to capitalize on the land, there can be no economies-of-scale, no mechanization or technological development, as a result of which economic growth will stall. However, while avoiding downplaying China's problems of agricultural land loss,<sup>30</sup> environmental degradation (Ho 2006) and evictions,<sup>31</sup> there is growing scholarly consensus that the tenure reforms<sup>32</sup> have by and large been a success.<sup>33</sup>

It is no overstatement to maintain that the Household Contract Responsibility System is one of the core institutions that underlies this success. It can thus be accredited with a fair measure of institutional credibility. Since its introduction, the agricultural lease system has been the institutional mainstay for the Chinese people, the majority of whom to date still live in the countryside. This is not to say that it has been *the* panacea or *the* ultimate solution for the economic reforms, as there is no such thing. The success of the reforms has been the result of an amalgam of socio-economic, cultural, historical and political factors, including a state that self-consciously shapes country-drivenness and gives leeway for bottom-up development. Having said this, the agricultural lease system was, and still is, a decisive, credible institution in turning China's economic transition into a success. I would maintain that it is so in various ways:

1. By providing a sustained source of livelihood for the rural populace, and serving as a stable base for finding alternative employment opportunities;<sup>34</sup>
2. By enabling China's impressive industrialization that was rooted – and continues to be rooted – in the rural sector;<sup>35</sup>
3. By allowing a stable transfer of the agricultural surplus labour to other sectors of the economy – steadily decreasing over 1979–2004 from approximately 80 per cent to 60 per cent (FAO 2006);
4. By coupling the labour transfer with a concurrent decline in rural poverty from 30 per cent to 2.8 per cent of the total population over the same period (Liu 2005);
5. By facilitating a greater diversification and modernization of China's agriculture in the long term;
6. By achieving all of the above without major social, economic and political disruption as befell, for instance, the former Soviet Union.

Why is the lease system, in spite of its *communality*, *informality* and *tenure insecurity*, perceived as credible by the majority of the rural populace? The explanation for this blatant contradiction between theory and empirical practice is as simple as it is compelling, and requires us to look at developments at the grass-roots.

The average farm size in China is currently a mere 0.10 ha per household (National Bureau of Statistics 2003: 6 and 97), scattered over as many as 5 to 6 different plots.<sup>36</sup> This situation in which a majority of the Chinese rural work force depends on small, fragmented plots – barely sufficient to sustain an average farm family's livelihood – is indicative of a large hidden unemployment, and under-employment at best. During the 1990s, a large proportion of the agricultural surplus labour was absorbed by the emerging rural industries, and subsequently by the expanding urban economy. However, as the economic reforms progressed, farmers increasingly failed to find permanent employment, and rural-urban migration flow gained a strong seasonal character, at the beginning of the 21<sup>st</sup> century estimated at

around 150 million rural workers (Nolan 1993).<sup>37</sup> The official unemployment rates, which for the past few years hovered around 5-6 per cent, are notoriously misleading as they do not account for rural unemployment and under-employment. Qingxi Zhang, an economics professor at National Taiwan University, roughly estimated that China's total unemployment in 2003 should be a little over 34 per cent.<sup>38</sup>

Here we have touched on an important indicator of credibility: the level to which an institution fulfils the functions it should perform in the perception of individual actors. In this case: the redistribution of land. Lacking sufficient employment outside agriculture, the Chinese farmer is condemned to a tiny plot of land as a source of income. Under such circumstances the village authorities are forced to redistribute land in response to demographic changes. Put simply, if in one household somebody dies, while in another a baby is born, there will be a strong social pressure to take away land from one household and redistribute it to the other. In a recent village survey, 70 per cent of the farmers felt that when there are demographic changes in the family, the village committee should reallocate land, even though it is leased for 30 years. This finding was double-checked by asking farmers whether "the village's land must be allocated to farmers by the village committee in an egalitarian way" to which as many as 79 per cent of the respondents answered that they "agreed" or "very much agreed" (Ho 2008: 156).

One of China's foremost agricultural experts remarked that "if you talk about land being a means of social security for the farmers, you are actually speaking about its dual function: it is a means of production, as well as a security for farmers' livelihood" (Wen quoted in Deng 2001: 3). Put differently, the frequent redistributions ensure that each farmer has equal access to a basic level of social welfare. It becomes evident that the lease system does not function as an institution to distribute land in the economically most efficient way, but rather as an egalitarian safety net for China's vast surplus of rural labour. Chinese praxis confirms what critical economists like Stiglitz suspected all along:

"The fact that institutions seem to respond to their environment is one of the factors that have misled some observers to think of them as efficient. But (...) social institutions may or may not improve upon the market equilibrium; there is no presumption that evolutionary processes have any strong optimality properties" (Stiglitz 2000: 64).

On the basis of the above, one could put forward the hypothesis that the reforms did not succeed in following neo-classical axioms of privatization, formalization and tenure security despite the Chinese state's abstinence, but rather thanks to that. This is suggested by the sustained institutional credibility of the Household Contract Responsibility System throughout the period of

reforms.<sup>39</sup> Under the given socio-economic conditions, the imposition of tenure security should upset rural society, rather than stabilize it. For the greater part of the Chinese countryside, institutional change through privatization, titling, and market liberalization would result in ‘empty’ rather than credible institutions. Exactly this insight prompted a Director-General at China’s Ministry of Agriculture to state that:

“The policy of 30 years’ lease is not likely to work in the short run, because it is going to take decades before enough farmers have been transferred to other economic sectors. Only then will the population pressure on land be brought down sufficiently to allow secure lease rights.”<sup>40</sup>

The establishment of credible institutions hinges on striking the right balance between social actors’ expectations with the given socio-economic parameters. Sometimes this means establishing new institutions to channel development. Sometimes this means adopting a ‘hands-off-approach’ and leaving grassroots institutions space for their own institutional trajectories. It all depends on place and time.

#### GRADUALISM AND INSTITUTIONAL AMBIGUITY

While credibility constitutes one side of Chinese pragmatism, gradualism constitutes the other. It is easy to forget how lengthy and arduous development processes are, and one tends to grow impatient when change is seemingly absent. However, changes in development only become obvious in retrospect. A good example is the reaction of the international media to the Chinese Communist Party’s (CCP) recent announcement of a new policy on the liberalization of the land market. It was greeted with great enthusiasm. Finally, after so many years China would privatize the last means of production that had been so anxiously kept in state and collective hands. *The Economist* wrote:

“Some believe that, at long last, the Party has recognized that the key to agricultural improvement is land ownership. (...) A proper land market would protect farmers from indiscriminate land grabs by local officials who often take collective ownership to mean control by themselves.”<sup>41</sup>

However, the media’s reactions demonstrate a common misunderstanding of China’s polity. The Chinese authorities favour no sudden changes in policies. Haunted by the experience of the former Soviet Union – once a mighty empire which overnight slid back to a mere developing country armed with nuclear warheads – the Chinese state has sworn an oath of gradualism. China is fearful of precipitant liberalization of the land market because of the danger of landlessness, a problem that has troubled land reform programs all around the globe.<sup>42</sup> Even when

a policy in China is announced as a “landmark policy”, it carefully builds on the past. A quick glance at the new land reform policy, officially known as the Central Committee’s “Decision on Major Issues Concerning the Advancement of Rural Reform and Development”,<sup>43</sup> clarifies this. According to the policy, farmers are allowed to lease farmland and transfer their land-use rights. However, this is not extraordinary as commercial lease and transfer occurred as early as the 1990s when many farmers left their land and found jobs in the booming rural industries and cities.

At the time, the central authorities connived at such local practices as a means of social experimentation. In general, frontrunner regions such as the developed, coastal provinces of Guangdong and Zhejiang were tacitly allowed to test the “capitalist waters”. If these *extra-legal* practices proved successful, they were legalized, formalized, and scaled up to the national level. If they failed, the government prohibited them as they were operating outside the law anyhow. As a senior legal advisor to the Minister of Land Resources remarked, in China’s land markets anything is possible, because “if it is not forbidden, it is allowed” (*wu jin zhi, ji xu ke*).<sup>44</sup> Such “intentional institutional ambiguity”<sup>45</sup> provides the lubricant for China’s transition, which boils down to a complex process of institutional change based on trial-and-error. To understand how this step-by-step reform works within this context of state-approved ambiguity, we only need to look at the history of agricultural tenure.<sup>46</sup>

#### A CHRONICLE OF INSTITUTIONAL CHANGE IN RURAL CHINA

Did the Chinese authorities consciously aim for a particular institutional architecture when the People’s Communes disintegrated? No, not only was there no master plan for the economic reforms, much of it was also unanticipated. To safely steer through the transition, the authorities had to avoid rushing. It is what the Chinese aptly phrase as “crossing the river by feeling the stones” (*mo zhe shitou guo he*); you take a plunge when you hurry. It boils down to granting space for institutional innovation at the grassroots – and only upscale it when it has proven viable, or preserve the status quo when it has failed.

Two years after Mao’s death in 1976, 18 farm families in Xiaogang, a poverty-ridden village in Anhui province, were returned the full use rights over land to kick-start agriculture, beaten into lethargy after an era of socialist planning. This was not a historical precedent as is erroneously assumed as, under the commune system, a certain degree of private farming was sometimes condoned, with limited managerial responsibilities vested in the household.<sup>47</sup> Xiaogang’s institutional trial was also not a stand-alone experiment, because various lease forms were tried in different regions.<sup>48</sup> What set the Xiaogang experiment apart is that by the mid-1980s it had grown into a national model.<sup>49</sup> Why this happened is due to a coincidental mix of dire necessity driven by poverty and a sluggish agricultural produc-



tion; the extent to which the Xiaogang model ventured reinstating the household as the unit of agricultural production; and the way political leaders facilitated and protected the experiments.<sup>50</sup>

Although agricultural production picked up in subsequent years, the lease experiments were by no means uncontested. The political hardliner Chen Yun, President Deng's chief in economic affairs, was fiercely opposed: "We cannot allow farmers to choose the path which only serves their narrow interests. Otherwise, the so-called freedom of 800 million farmers will result in the collapse of the state plan" (Chen cited in Zhou 1996: 13-14; Chen 1986). During this crucial time of institutional change, leaders sympathetic to the lease experiments manoeuvred with great care. While being silently permissive, they deliberately maintained a fair degree of ambiguity towards the intentions of the government. Wan Li, the Party Secretary of Anhui province, who lent his full political weight for the protection of the lease trials, spoke of the "Three Don'ts" (*San Bu*): the experiments should "Not be publicized, Not be promoted, and Not appear in newspapers".<sup>51</sup> At the start of the economic reforms in December 1978, farmers were cautiously allowed a lease period of just five years.

The year 1984 proved critical for the Household Contract Responsibility System as the agricultural lease system by then was officially termed. A bumper harvest surpassing a total grain production of 400 million tons silenced all doubt within the conservative faction of the central leadership. It had become overly obvious that individual household farming rather than communal agriculture based on central planning and "workpoints" was the way forward. The successful harvest also provided sufficient legitimacy for the Contract Responsibility System to be extended to other agricultural sectors such as forestry, animal husbandry, and fishery (Cheng et al. 1995/6: 44; Reisch 1992: 15-16). It sounded the death knell to the People's Communes that were abolished soon after, a quarter of a century after their revolutionary establishment. The commune's abolition was a typical "institutional externality" – unforeseen and unintended – as would happen on several occasions during China's lengthy transition.

To ensure the farmers' sustained incentive to invest, the 5-year lease was extended to 15 years. By the time that the majority of contracts expired in 1993, the term was once more extended by another 30 years on top of the original contract period.<sup>52</sup> As the Household Contract Responsibility System evolved from an institutional innovation into the dominant institution underlying agricultural production, a second transformation swept through rural China: a spectacular industrialization. From 1978 until 1992, the rural share of China's industrial production rose from a mere 7 per cent to 50 per cent, with an average annual increase of 26 per cent throughout the 1980s. This industrial growth was not propelled by the state-owned enterprises, but by collectively owned, small-scale rural industries, dubbed the town-

ship and village enterprises. By the mid-1990s, the township and village enterprises accounted for approximately a quarter of the GDP, almost half of the gross industrial output, and more than one-third of the national export earnings (Mukherjee and Zhang 2006). The booming rural industries even took China's paramount leader by surprise. In a remarkably open comment, Deng Xiaoping stated:

"All sorts of small enterprises boomed in the countryside, as if a strange army appeared suddenly from nowhere. This is not the achievement of our central government. (...) This was not something I had thought about, nor had the other comrades" (Deng quoted in *People's Daily* 1987).

Rural industrialization signalled a new phase for the agricultural lease system. A great proportion of agricultural labour was absorbed into the township and village enterprises. Whereas there were only 1.5 million workers employed in 1978, this exploded to 96 million in 1991, while five years later, the state-owned industries were even surpassed in employment generation with 135 million workers (Lin and Yao 2001: 146 and 161). The land that China's new industrial workers left behind was either returned to the village collective for reallocation or directly subleased to the remaining farmers. Especially in the peri-urban zone and the coastal provinces where farmers found employment in the rural industries and in the cities, the beginnings of a land market became discernable.

Simultaneously, however, the central government was apprehensive about rushing ahead with marketization and privatization. To harness market forces, institutional hurdles were intentionally built into the system. The most important of these were: 1) a restriction on lease transfers to anyone outside the village collective; and 2) the deliberate ambiguity about commercial lease, euphemistically termed the "valued use" of land rights (*youchang shiyong*).<sup>53</sup> From the onset, farmers were allowed to transfer their lease to farmers *within* the village.<sup>54</sup> However, it took twelve years before farmers were also allowed to transfer land use rights to legal persons *outside* the village. To prevent entire villages from being bought by urban entrepreneurs and agricultural corporations, the law subjected such transfers to a two-thirds majority vote by the villagers' representatives meeting (i.e. two-thirds of the village population eligible for voting).<sup>55</sup> The second institutional hurdle concerned a basic principle of the market economy: pricing. Although Chinese law stipulated no rules on "valued land use", it also did not prohibit it. For the millions of farmers who left their land behind for a future in the rural industries or the cities, the intentional legal loophole gave leeway to test and taste the various aspects of capitalism (Huang 2001: 1). Land rights were sub-rented, transferred, and relinquished, for which different agreements were negotiated. The conditions for such transactions were written down in official contracts with lengthy provisions, or sloppy handwritten pieces of paper concluded through

a single fingerprint or, when family was involved, just through oral agreement.<sup>56</sup> Not until nearly twenty years later were the principles for commercial lease codified,<sup>57</sup> merely formalizing that which had already become common practice in the urbanized, industrialized parts of the countryside.

#### 8.4 IMPLICATIONS OF CHINESE DEVELOPMENT: SOME CONCLUDING OBSERVATIONS

The effects of China's development are visible everywhere: international markets are increasingly interwoven with the Chinese market and vice versa. China has become the workshop of the world, and not only the proverbial 'sweatshop' for cheap textiles, shoes and toys. On the contrary, in recent years China has shifted to the production of hi-tech electronics, cars and computers. This shift is testimony to China's growing economic, scientific and innovative power for decades to come. The Chinese economy generates a huge capital surplus and, in turn, attracts even greater flows of investments. As the enormous capital surplus seeks its way out of the country, the world is entering a new era of "globalization with Chinese characteristics". Yet, just a couple of decades ago China was still a developing country.

How did this rapid development come about, and what might the development sector learn from it? Many scholars see the Chinese state as decisive in fostering development and talk about "state-led development" and the "Chinese developmental state" (So 2001; White 1988). Others draw attention to China's rapid industrialization and the "local corporatist state" – an efficient partnership between local government and rural industries (Oi 1995). Yet, these explanations neglect to explore *how* the state channels development. In this regard, knowledge about the change of institutions is critical. We have little information about the choices of institutional change that Chinese policymakers faced: what form institutions should take; whether new institutions should be established; and if so, when they should be introduced. At a certain point in time, any national government that has started down the development road is confronted with the question of what position informal institutions, such as customary and communal land use arrangements, should be accorded relative to formal, statutory institutions. Should the state actively intervene in communal, agrarian society by setting up new institutions, or should informal institutions be simply incorporated into the national regulatory framework? Should traditional, informal sectors be left alone, or should they be restructured to fit the commercial demands of national and international markets?

The Chinese case proves these questions to be a non-issue. The debate should not be about the desired level of formality or informality of institutions, their required level of privatization or communality, but about their current level of credibility.

Only by looking at the extent to which institutions are supported or contested by social actors can states ultimately assess their viability. There is nothing to gain by spending huge amounts of time, energy and financial resources on the establishment of institutions that a few years later simply prove to be ‘empty institutions’. The development sector might have much to learn in this respect, whether we talk about large-scale land titling projects, irrigation and rural development schemes, civil society building projects or economic restructuring programs. One of the core institutions that moved forward China’s development is the Household Contract Responsibility System. It is the institutional successor of a communist, bureaucratic Moloch – the People’s Communes. But different than the commune system, the agricultural lease system manages to provide a stable livelihood to the majority of the population while enabling rural industrialization, the transfer of agricultural surplus labour, and the overall diversification and modernization of agriculture.

It is becoming increasingly clear that China’s agricultural lease system is converging towards tenure systems elsewhere in the world.<sup>58</sup> For instance, it bears a striking resemblance to the system of long lease in some parts of the Netherlands under which municipal governments own land, but lease it to individuals for 55 or 75 years. One might also say it is similar to the British system of Crown land that entitles tenants to a ‘freehold’ – a lease as secure as the civil law definition of absolute ownership.<sup>59</sup> There was, however, never an institutional plan or blueprint by the Chinese state to move the nation towards such a tenure system. It is the result of institutional evolution. The main reason why the state was successful in channelling such evolution is the result of the main features of Chinese development: credibility and gradualism.

On institutional change, Stiglitz once remarked: “Typically, institutions (...) develop an internal coherency that is not too dissonant with the external environment they must face. When it becomes too dissonant, then institutions must change” (2000: 64). China proves him right about the internal coherency. The credibility that the Household Contract Responsibility System has enjoyed throughout the reforms is all about internal coherency. It is the reason why China’s lease system – contrary to what axioms of neo-classical theory predict and postulate – has succeeded in coupling stable, sustained development with a high degree of insecurity, informality, and communality. On the other hand, whether institutions *must* change if their internal coherency gets out of syncopation with the environment is by no means evident. In fact, if the Chinese case proves one thing beyond any doubt, it is that institutional innovation is no task for the state. Contrarily, institutional innovation was initiated at the rural grassroots.

Was China’s agricultural lease system then a fully fledged, autonomous peasant movement? As a Chinese scholar described with passion:

“A spontaneous, unorganized, leaderless, nonideological, apolitical movement, and it is rapidly sweeping away everything in its path. (...) The farmers of China are changing China this time around – not the leaders, not the bureaucrats, not the cadres, not the intellectuals but the farmers themselves” (Zhou 1996: 1-4).

Appealing as it may seem, such a romanticized idea misreads China’s institutional dynamics. The evolution of credible institutions is not a matter of one or the other – state versus society, dependent versus independent variable, cause versus effect – it is a matter of *interaction*. Thus, while China’s institutional innovation started at the grassroots, it was the state that allowed it to happen, protected it when it was contested, and codified and upscaled it once it had proven effective. Doing this regardless of an institution’s form or function – formal or informal, secure or insecure, private or common – touches on the core of credibility. One can only concur with Grabel that “credibility is always secured endogenously (...), rather than exogenously by virtue of the epistemological status of the theory that promotes it” (Grabel 2000: 2-3).

While credibility is one crucial component in Chinese development, gradualism is certainly the crucial other. Only if we allow for the elapse of time can we truly see how state and society interact in the shaping of institutions. Ironically, precisely this fact tends to be neglected now that the Household Contract Responsibility System has proven itself. Once more, similar to the 1980s and 1990s, there are forceful voices that call for the commercialization, privatization and formalization of land tenure. During the drafting of the 2007 Property Law, many scholars and congress members felt that the state should no longer postpone market liberalization, but push forward the commercialization of rural land tenure.<sup>60</sup> They see the recent sprouts of a rudimentary land market around the cities as substantiating their argument.<sup>61</sup> These proponents forget that it was gradualism that facilitated the “capitalist market experiments” within a context of state-upheld institutional ambiguity, and that it took two decades of local experimentation before they were finally legalized. More importantly, the fact that in some regions the Household Contract Responsibility System seems to be changing in nature does not preclude that it still functions as a social welfare net for the rural populace in most parts of China. The continued support of the majority of the farmers for an egalitarian land distribution points in this direction.

China’s tremendous development has effectively split the nation in two: a largely agrarian society with the main part of the population still under-employed on small-scale, fragmented family farms versus an industrialising, urbanizing society with a rising middle class eager to buy their own cars and houses and chose their own political representation. Carefully balancing the hugely different institutional constellations of these two worlds is the daunting challenge that confronts the

Chinese state. As the villages around the cities are integrated into the urban and global economy, the central state starts to ponder how the institutional change of the evolving lease system can be channeled. It does so by looking outside China in the hope of finding institutional histories with converging trajectories. China's quest for institutional parallels means that we have come full circle: at exactly this point, opportunities for a new kind of development cooperation are opened up. Contrary to the popular belief that China is no longer a developing country, the Chinese state still faces *fundamental* choices of institutional design, quite different from those faced by governments in, for instance, Western Europe and North America. Nowhere is this more obvious than around the institutional governance of land. Important questions that China seeks to answer in this respect are: What are the possible drawbacks of a land lease system? Or, can land lease sufficiently ensure social actors' confidence in the value of property rights even if ownership is not theirs? The Dutch system for instance of long lease has existed since as early as the 15<sup>th</sup> and 16<sup>th</sup> century. Understanding why this institution has survived for so long is critical for the Chinese authorities and can aid them in better facilitating their own institutional experiments. And it is important for them to know the historical and cultural reasons that caused some cities such as Amsterdam and The Hague to adopt long lease, while others adopted private ownership (Koerts 2006: 12).

For one thing, China lacks a cadastre in the countryside, and the rights of ownership and individual lease still need to be titled and registered. A basic institution in society that facilitates economic transfers, such as a cadastre, takes many decades to evolve and is strongly dependent on country-specific circumstances. The Dutch cadastre, today renowned for its efficiency, transparency and accuracy,<sup>62</sup> dates back almost two centuries to 1832. During this long time span the Dutch have made certain institutional choices, for instance, to protect the truthful owner rather than the buyer of the property.<sup>63</sup> Only after a verdict of the Supreme Court in 1838 was this regulation formally established. For a country like China where the urban sprawl has caused the forced evictions of millions of farmers and homeowners, the protection of the true owner rather than the buyer might thus have important legal consequences.<sup>64</sup>

China no longer needs conventional aid such as for poverty alleviation, literacy programs, or the building of schools, roads and hospitals. But there is a heartfelt need for new ways of development cooperation in the form of international exchange, action research and pilot projects on institutional change. Such development cooperation embraces 'country-drivenness' and 'bottom-up development' as we are dealing with a state that drives its own development, while knowing how to facilitate rather than to intervene in bottom-up innovation. For China, new development cooperation can help to grasp the opportunities and constraints of its own institutional architecture. For us, China's successful diver-

gence from widely accepted theorems is well worth studying in greater detail. It might have profound implications for our conceptualization of development. The balance between state and society, informality and formality, private and common, intervention and a “hands-off” approach, needs serious reconsideration. As China’s institutional constellation step-by-step consolidates in one way or the other – a British system of Crown land or the Amsterdam system of long lease – it will prompt us to rethink theory and praxis of development, and shift to new ‘rules of developmental engagement’. It all comes down to gradualism and credibility, or what the Chinese call pragmatism.

## NOTES

- 1 Bauer is the alleged source of the aphorism “aid takes money from poor people in rich countries and gives it to rich people in poor countries”. As a result of the criticism, the Paris Declaration on aid effectiveness was endorsed on 2 March 2005.
- 2 The UNDP writes that through country-drivenness “individual countries (...) can drive the process of programme implementation at the local and national level in such a way that it responds directly to their needs”. [www.undp-adaptation.org/projects/websites/index.php](http://www.undp-adaptation.org/projects/websites/index.php) accessed on 25 July 2008.
- 3 Van Heck states that participatory development leads to higher effectiveness as “the people involved (...) obtain more opportunities to contribute their indigenous knowledge of the local conditions to the project and thus facilitate the diagnosis of environmental, social and institutional constraints” (van Heck 2003).
- 4 A policy document on transition developed by the Harvard Institute for International Development, which favoured market liberalization and privatization.
- 5 In the 1980s, two currencies were used, *Renminbi* (or ‘People’s Currency’) and *Waihuijuan* (FEC = Foreign Exchange Certificate), which could only be obtained by exchanging foreign currency against a government-set rate. Only FEC could be used to buy imported goods in state-designated stores – the Friendship Stores.
- 6 The term used to designate the Socialist World, as opposed to the First Capitalist Developed World, and the Third Developing World.
- 7 See the introduction in Ho (2005).
- 8 The Household Registration System, known as *hukou*, is a system by which the urban employee was bound to a specific employer – the workunit or *danwei*, while the farmer was bound to the rural collective (the commune, production brigade, and production team). The system implemented a strict rural-urban divide, under which the urban resident was entitled to various social services – housing, health care, education, pension, etc. – while the farmer was excluded from them. Rural-urban immigration was also heavily restricted. In recent years, the *hukou* system has been gradually relaxed by the central authorities (Cheng et al. 1994).
- 9 Indirectly the nationalist sentiments that drove this work are linked to the self-consciousness and self-assertiveness that underlie country-drivenness and ownership (Zhang et al. 1996).
- 10 Figures from the OECD show that the ODA (Official Development Assistance) received by China only amounted to 0.1 per cent of Chinese GNP (e.g. Indonesia received 0.9 per cent, and Burkina Faso 12 per cent). See He, Liping and Marie Söderberg, ‘ODA for China: Seed Money and a Window for Contacts’, European Institute of Japanese Studies, *Working Paper 214*, June 2005, pp. 1-22; and Recipient Aid Charts of the OECD at [www.oecd.org/dataoecd](http://www.oecd.org/dataoecd) accessed on 29 July 2008.
- 11 This norm was developed by Lester B. Pearson, former Prime Minister of Canada, who published the report for the World Bank entitled ‘Partners in Development’



- on September 1969. It was accepted as a minimum standard during the adoption of Resolution 2626 by the United Nations General Assembly on October 1970.
- 12 Also known as the “landenlijst van Herfkens” named after Eveline Herfkens, the Dutch Minister who broke with her predecessor, Jan Pronk, and limited the number of developing countries eligible for aid.
- 13 World Bank, Online Data and Statistics: Country Groups (2007), at [web.world-bank.org/website/external/datastatistics](http://web.world-bank.org/website/external/datastatistics) accessed on 1 August 2008.
- 14 See, for instance, the UNDP’s Human Development Reports, and its use of the Human Development Index.
- 15 *Program of Action for the Least Developed Countries 2001-2010*, Third United Nations Conference on the Least Developed Countries: Brussels, 14-20 May 2001.
- 16 *China’s foreign exchange reserves, 1977-2008*, Chinability, at [www.chinability.com/Reserves.htm](http://www.chinability.com/Reserves.htm), accessed on 1 August 2008. For a sense of the international sentiments towards China’s foreign reserves, see BBC News Channel, “China’s foreign reserves balloon”, 12 April 2007, at [news.bbc.co.uk/1/hi/business/6548015.stm](http://news.bbc.co.uk/1/hi/business/6548015.stm) accessed on 1 August 2008.
- 17 As Commons remarked: “Sometimes an institution seems to be analogous to a building, a sort of framework of laws and regulations, within which individuals act like inmates. Sometimes it seems to mean the ‘behaviour’ of the inmates themselves.” (Commons 1961: 69). For sociologists, the term ‘institution’ refers to an agreement system that organizes some general aspects of group life. Babbie defined an institution as: “A relatively stable and integrated set of symbols, beliefs, values, norms, roles and statuses relating to some aspect of social life” (Babbie 1980: 114).
- 18 From 2001-2004, real estate ended first place, and in 2005, real estate ended third place. Anonymous, ‘2005 nian Zhongguo shi da baoli hangye’ (The 10 Most Profitable Industries in China in 2005), *Zhongguo Jingjiwang* (China Economic Net) at [www.chinaeconomy.cn](http://www.chinaeconomy.cn) (now [www.ce.cn](http://www.ce.cn)) accessed on 28 March 2006.
- 19 Hoogewerf (2002), ‘China’s 100 Richest 2002’, *Forbes*, at [www.forbes.com/lists/2002/10/24/chinaland.html](http://www.forbes.com/lists/2002/10/24/chinaland.html) accessed on 2 August 2007. Even after some of these tycoons were arrested for economic crimes, 35 real estate developers still remained on *Forbes*’ 2003 list. Flannery (2003), ‘China’s 100 Richest 2003’, *Forbes*, at <http://www.forbes.com/2003/10/29/chinaland.html>, accessed on 2 August 2007.
- 20 Minister Tian Fengshan was arrested in 2005, and convicted in early 2006. His crimes were committed during his term as provincial governor of Heilongjiang.
- 21 Speech given at the Chinese Communist Party Central Rural Work Meeting on 29 December 2005, and released for the public on 20 January 2006. Available at [Xinhuanet.com](http://Xinhuanet.com).
- 22 Consecutive years of the World Development Indicators of the World Bank.
- 23 At the 3rd Plenum of the 11th CPC Congress in December 1978, Deng Xiaoping set China on the road to economic reforms and openness (called *Gaige Kaifang* in Chinese). The Soviet Union embarked on ‘perestroika’ or economic reforms,

8.5 years later, when at the June 1987 plenary session of the Central Committee of the Communist Party of the Soviet Union, President Gorbachev presented his 'basic theses'. These laid the political foundation of economic reforms for the remainder of the existence of the Soviet Union. However, in the two preceding years there was already talk about the modification of central planning and with 'glasnost', greater transparency and freedom in society (Cohen et al. 1989).

24 This does not mean, however, that the Chinese state wanted to abandon Communism, rather it was a matter of introducing market forces within a socialist system, hence Deng Xiaoping's concept of "Socialism with Chinese characteristics".

25 The argument is most forcefully stated in De Soto (2000).

26 In fact, similar to Hardin's (1968) argument on pastoral resources 14 years later.

27 For a discussion on the credibility of institutions, see Ho and Spoor (2006).

28 In a recent survey, it was found that for the overall majority (75 per cent) of a sample of 1140 households, land was reallocated every 4 to 5 years (Ho 2008). In a nationwide survey of 271 observation villages, it was found that 80 per cent of the villages had readjusted the leased plots since the introduction of the land lease system (of which 66 per cent had done so twice or more). See Wang (1998).

29 But the assumption that insecure land rights would lead to bad management practices has proven to be far from straightforward (Kung and Cai 2000).

30 Although a serious problem, the arable land losses have not led to major socio-economic instability. Over an extended period from 1978-1996, the official figures mention a decrease of 4 per cent in the total arable area: an annual loss of 218,000 ha (Ash and Edmonds 1998; Smil 1999).

31 Land evictions are mainly concentrated in the peri-urban zone, where the urban sprawl has put increasing pressure on the surrounding rural areas. See, for instance, the incident for the expropriation for a power plant as happened in a village near Beijing (Pan 2005).

32 Note that the text specifically talks about agricultural tenure. The situation is different for forest, grassland and wasteland tenure (Banks 1999; Zhang et al. 1999; Ho 2003).

33 In fact, the initial positive effects of decollectivization on agriculture have never been much contested. As Lin writes: "Decollectivization is found to improve total factor productivity and to account for about half of the output growth during 1978-1984" (Lin 1992: 34). Also for the later period of reforms after the mid-1980s, economists are generally positive: "The land administration reform has (...) created a more effective land use system and a market for transfers of land, in particular non-agricultural land" (Qu et al. 1995: 193). Fan notes: "Both production and productivity still grew at respectable rates during the reform period" (Fan 1997: 213).

34 Svejnar and Woo maintain that the rapid development of the township and village enterprises is a direct consequence of the lease system. First, the rapid increase in agricultural productivity by the lease system released huge surplus labor to be absorbed. Second, the booming agricultural markets put funds in the hands of

farmers to start businesses. Third, the lease system enabled farmers to control labor allocation. Fourth, as farmers were not allowed to be employed in state-owned factories, they had to fall back on their own devices for industrial employment. Hence the township and village enterprises (Svejnar and Woo 1990).

35 As Peng writes: "Rural reforms since 1978 have allowed Chinese peasants to retain a larger share of agricultural surplus to be transferred into rural industries" (Peng 1995: 1).

36 Tan et al. (2005) furnished empirical data demonstrating a high extent of land fragmentation directly after the first round of lease during the mid-1980s (8.4 plots in 1986), which decreased in the following years, and finally stabilized at approximately six plots.

37 Some scholars maintain that Chinese migration is determined by institutional factors (read: the *hukou* system), rather than by socio-economic factors (Fan 1999). However, this is contested by others who maintain that "the causal link runs from economic growth to migration", see Zhang and Song (2003: 386).

38 He wrote: "To calculate the unemployment rate in a broad sense, the surplus labor forces in the countryside are added on the third assumption. At the present, all mainland labor forces in the countryside are 470 million (another saying is 499 million), and the arable land is 1.9 billion mu (1/15 ha). If every laborer can tend 10 mu, only 190 million farmers are needed. Adding 190 million workers to township enterprises, only 320 million labor forces are employed fully in the countryside. 150 million people need to find job opportunities. If every laborer can tend more land than 10 mu, the surplus labor forces would be higher than 150 million. The Asian Developing Bank estimated that the surplus labor forces are about 200 million in the countryside of the mainland. Based on this, the overall jobless rate should be 34.3 per cent in China (5,000+20,000/25,940+47,000)." (Zhang 2003) available at <http://www.washingtonchinareview.org/newsdetail.php?id=783>, accessed on 6 December 2008. A recent publication on unemployment in China is Warner (2006).

39 Support for land reallocations by the village collective started from 80.6 per cent in the late 1980s, dropped to 62 per cent in the late 1990s, and is back to 70 per cent in 2005 as the survey in the main text demonstrates. A 1987 survey reported that 80.6 per cent of 10,679 households believed that contract land had to be expanded if the household size increased (Nongcun Guding Guanchadian Bangongshi 1992: 329). Ten years later, it was found that 62.8 per cent advocated redistribution of cropland (Wang 1998: 57).

40 Sheng Li, Director-General of Law and Policy Reform of the Chinese Ministry of Agriculture quoted (Ho 2005: 188).

41 *The Economist* of 16 October quoted in ww4 (ed.), 'China Land Reform: Great Leap Backward?', 19 October 2008, Brooklyn, New York, at <http://www.ww4report.com/node/6183>, accessed on 12 December 2008.

42 A FAO report rightfully noted: "Liberalizing the land market will most likely lead to a concentration of land assets. There is, for instance, evidence of worsening land

distribution (...) as a consequence of the operation of land markets. In the presence of market imperfections, especially in the credit market, land could become concentrated in the hands of producers who are not necessarily the most efficient, even from a private standpoint” (de Janvry et al. 1997: 10). Another UN study stated that one should think of ways “for making the land market approach workable and socially acceptable, bearing in mind the alarming statistics of increasing numbers of rural poor, landless workers and undernourished children, especially in the Middle East and sub-Saharan Africa” (El-Ghonemy 1999: 15).

43 This policy was adopted by the Third Plenary Session of the 17th Central Committee of the CCP (Jiang 2008).

44 Personal communication, Wang Weiguo, April 2005. Wang is professor in Commercial and Civil Law at the China University of Politics and Law.

45 A good example of such a successful attempt at ‘intentional deliberate ambiguity’ is provided in the case study of the Land Management Law (chapter 1) and of a failed attempt in the case study of the Grassland Law (chapter 3) described in Ho (2005).

46 Note that for reasons of space we thus exclude urban tenure, as well as forest, grassland and wasteland tenure.

47 Before the communes in 1958, farmers were allocated small plots of collectively owned land for their own use (the so-called *ziliudi*). Individual farm households negotiated contracts under which they had to deliver a grain quota to the state at low fixed prices. The surplus grain produced above the quota could be sold freely on private markets. However, these privileges were rescinded twice (and subsequently reinstalled) during the leftist extremism of the Great Leap Forward since 1958 and the Great Proletarian Cultural Revolution (1966–76). See (Madsen 1991: 647–8).

48 There were various forms in which rights over land and agricultural operation were returned to the household, such as contracting output to the household (*bao chan do hu*) and contracting labour to the household (*bao gan dao hu*). The Xiaogang model advocated contracting everything to the household (*da bao gan*). Many of these lease forms originated in the mountainous regions of provinces such as Anhui, Sichuan, Shanxi and Zhejiang (Chen 2002: 349–363).

49 A similar series of events occurred with the wasteland auction policy (Ho 2003).

50 The Xiaogang land lease was initiated by its village head, Yan Junchang. It received protection from Wang Yuzhao, the Party Secretary of Fengyang Prefecture under whose jurisdiction it belongs. Wang, who had learnt of the lease experiments and had been told that agricultural production seemed to benefit, promised to protect the village as long as the lease practices would not spread. During the period when no official approval had been obtained from the central state, the Xiaogang model was personally supported by Wan Li, the former Party Secretary of Anhui Province (Kelliher 1992).

51 Party Secretary Zhao Ziyang in Sichuan, who allowed three local initiatives: specialized contracts, task rates and contract production to work groups, spoke of

Four Don'ts (*sibu*): “don't publicize, don't oppose, don't support and don't stop them” (Wang 1989: 1-16).

- 52 The term of lease is different for other types of land – forest, grassland and waste-  
land. The 2002 Rural Land Contracting Law defined that “the lease term for grass-  
land can be 30 to 50 years, for forest land 30 to 70 years, and for forest land with  
special trees and shrubs the lease term can be extended after approval by the forest  
administrative departments of the State Council” (Kangsheng 2002: 174). The  
term for urban land according to the Land Administration Law is 70 years.
- 53 Other instances are the regulations that farmers are only allowed one plot of land  
for housing. It is strictly prohibited to sell or rent out farmhouses, and subse-  
quently apply for new plots of housing land. In addition, all rural land – be it agri-  
cultural or non-agricultural land such as used for housing, public and private  
construction, and infrastructure – cannot be mortgaged.
- 54 In Chinese called: to ‘circulate’ lease (*liuzhuan*). This is allowed under the 1986  
Land Administration Law, article 2, which states: “the right to the land owned (...)  
by the collectives may be lawfully transferred.”
- 55 See, 1998 Land Administration Law, article 15.
- 56 Examples of such contracts are included in the appendices of Ho (2005).
- 57 There are five conditions: 1) the lease transfer must be a voluntary, consultative,  
and paid lease while no individual or organization may impose or frustrate the  
transfer; 2) the ownership and agricultural land use cannot be changed; 3) the term  
of lease cannot exceed the remaining time of the original term (30 years); 4) the  
new lessee must have agricultural management capacity; 5) members of the same  
village enjoy priority in obtaining lease rights. See 2003 Rural Contracting Law,  
chapter 5, article 33.
- 58 This reading fits in with the Chinese academic discussions on transforming the  
right to lease into a real right, discussions that started as early as the second half of  
the 1990s (Su 1996).
- 59 As Simpson described: “Freehold originally meant that the land was held by ser-  
vices of a free nature and not that it was free from all rent and conditions, as its  
name seems to imply. This indeed is what it has come to mean, for it can now be  
regarded as synonymous with absolute ownership” (Simpson 1976: 28).
- 60 Oral communication, Li Sheng, director-general of the Ministry of Agriculture, 29  
August 2008.
- 61 Recent research carried out by Liu, Carter, and Yao furnishes empirical evidence  
on the relation between changes in property rights and the level of socio-  
economic development in China. They demonstrate that the privatization of crop-  
land lease extended furthest in regions where land is of modest economic impor-  
tance because of ample off-farm employment or relatively abundant land per  
capita (Liu et al. 1998: 1803).
- 62 In 2007, a total of nearly 1 million transactions with a value of 200 billion euro  
occurred with an error margin less than 1%. Real estate transactions take place  
within 24 hours, and are fully digitalized. The high transparency of the Dutch

cadastre is shown by the fact that all data on parcels can be found online, including their rights, previous selling price, and personal information of the owner (including mortgages). In this, the Dutch cadastre prefers transparency over the protection of privacy, as even the assets of the Dutch Queen can be found online.

63 The so-called causal system of property obtainment.

64 The result of this institutional arrangement, however, does imply that the buyer runs a certain risk during economic transactions. It is why Dutch insurance companies specifically provide insurance for such risks.

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## 9 BUSINESS AND SUSTAINABLE DEVELOPMENT: FROM PASSIVE INVOLVEMENT TO ACTIVE PARTNERSHIPS

*Rob van Tulder and Fabienne Fortanier*

### 9.1 INTRODUCTION: FROM UNIFORM TO PLURIFORM DEVELOPMENT THINKING

Academic thought about economic growth and sustainable development in the 21<sup>st</sup> century represents a breach with traditional thinking in many respects. One of the main changes is increased attention to the active role that firms (whether multinational corporations or local enterprises) can play in achieving development, either directly through corporate social responsibility (CSR) activities or in the form of partnerships with non-governmental organizations (NGOs) and/or governments. This mirrors the increasing awareness that not only governments should contribute to development (e.g. via official aid), but that all relevant actors in society can and should contribute to solving development problems. The modern development agenda is thereby more one of investment and business models than of subsidies and philanthropy. Partnering between public and private parties is thereby considered less of a luxury and more of a necessity to all of the actors involved. Austin (2000: 44) labeled partnerships as the “collaboration paradigm of the 21<sup>st</sup> century” needed to solve “increasingly complex challenges” that “exceed the capabilities of any single sector”. Sustainable development certainly represents such a challenge. This approach signals also a response to a number of the ‘failures’ linked to the previous phases of development thinking: governmental failure in achieving many of the official goals of development aid due to a lack of governance and appropriate institutional preconditions (in particular in sub-Saharan Africa), and civic failure in reaching the poorest parts of populations in a more or less efficient manner by development NGOs (marking the inefficiency and the relative fragmentation of good intentions).

Since the mid-1990s, a much more constructive approach to the contribution of the corporate sector to development has materialized with governments as well as academics. An interesting example is provided by Sachs (2008:321) who contends that each company needs to “be part of the solution [of development, RVT/FF] and needs to stretch its activities beyond normal market activities”. This approach also builds on the idea that firms face general problems of ‘market failures’ in creating sustainable business models and the provision of public goods for impoverished people in developing countries (cf. Van Tulder 2008). Nevertheless, serious criticism has also been formulated on the alleged positive contribution of corporate responsibility strategies of specific individual companies to international develop-

ment. Are the most focal corporations serious about their efforts or is it merely window dressing? More specifically: are firms susceptible for “blue washing” when they follow United Nations initiatives such as the Global Compact or the Millennium Development Goals? Window dressing can be defined as those activities that can easily be decoupled from normal, ongoing organizational activities (Weaver et al. 1999). How many companies actually consider poverty alleviation as part of their core activities? Frynas (2008) for instance states that positive claims about corporate strategies in addressing international development goals in particular are flawed for lack of empirical evidence, confusion about the scope and limitations of (effective) business strategies towards development, and unresolved governance questions. The question can therefore be raised of whether voluntary CSR of firms can be regarded as a “stopgap measure while ways are found to develop other governance mechanisms, or is it an end in itself by presenting a new ideal of global governance?” (ibid: 278). A failure to understand the actual contribution companies can make to poverty alleviation and international development might lead to cynicism about their claims and decreased willingness of other societal actors to engage in collaboration, in the end seriously lowering the effectiveness of present development efforts.

The new phase of development thinking is also the least well developed – we are in the middle of it – and surrounded by considerable societal, conceptual and empirical ambiguity. Under such circumstances, ideologies tend to prevail over realistic approaches. The fact that the new development thinking involves attention to the complementary roles of various actors in society highlights that actually no simple uniform – one size fits all – development path or prescription for governmental policies in trade, aid and investment can be sought. Development processes are context-dependent and contingent on the role of institutions, firms and (good) governance, making the conceptualization and implementation of clear development paths very challenging. At the same time, though, we can now profit from a much better and much less biased understanding of the previous institutional, technological, political and social preconditions for economic growth in the ‘developed’ countries themselves.

One of the arguably largest challenges in current development thinking lies in understanding the positive and/or negative roles of business as ‘change agent’ in economies and societies and integrating them into the largely macro-economic models that still prevail with international and national development organizations. The aim of this contribution is to address this challenge and provide a framework for systematically analyzing and addressing the variety of ways in which firms can and do (or do not) contribute to sustainable development. This requires five major changes in development thinking: from ‘traditional’ to ‘new’; from macro to micro; from general to specific; from passive to (pro-)active; and from go-it-alone to partnerships.

First, we document the move from the ‘traditional’ paradigm of development thinking to a new development paradigm, which in principle represents the efforts to upgrade development thinking through a better understanding of corporate involvement (following section). This involvement can be either rather passive (business as usual) or more active, and can have both direct and indirect impacts on development needs, as is highlighted thereafter. In the next section we focus in more detail on the range of strategies that firms can and do use in order to contribute to sustainable development. We further specify passive and active strategies towards development in four ‘business models’ (inactive and reactive; active and proactive) and consider what patterns have materialized with leading firms in the world. The argument is that there is no reason for undue cynicism nor for excessive optimism when assessing corporate strategies towards development. Instead we address the final challenge: how to move from a passive business approach to a more active business approach towards development. This involves firms as well as governments and NGOs engaging in partnerships. The next section identifies important partnership dimensions and takes stock of recent research in this area. Rather than delineating another macro-economic extension of development models, this contribution concludes by looking at the contours of an approach to development that searches for partnerships between the most important societal actors.

## 9.2 FROM A TRADITIONAL TO A NEW DEVELOPMENT PARADIGM

A New Development Paradigm gained prominence from the mid-1990s onwards, as a reaction to what can be designated as the Traditional or the Old Development Paradigm (TDP), originating in the neo-classical development thinking of the 1970s and 1980s (Dunning 2006). This TDP reflected the general consensus in development theory in that period on (1) development ends, (2) the means to achieve it, and (3) the processes that linked means to ends. Development as a concept was phrased primarily in economic terms and involved GDP per capita and productivity growth. Hardly any attention was paid to the social dimensions of development or the natural environmental context in which development was embedded. The main means to achieve development was to facilitate market transactions and international trade, as these were believed to be most effective in allocating resources and maximizing aggregate economic welfare (cf. Bauer 1984; Little 1982; Bhagwati 1977; Krueger 1985). The neo-classical approach represented a theory of static, rather than dynamic growth, using single equilibrium models in which technological progress was determined by exogenous factors.

Several developments triggered important changes in this TDP view. These included first of all, the disappointment over the results of development policies based on neo-classical thinking: on a global scale, the gap between rich and poor was widening. The collapse of the USSR in 1989, the fall of the Berlin Wall and stunting growth in many former Communist countries dismissed socialism and

the plan economy as a viable alternative for capitalism. But it was in particular the advent of the third wave of “globalization” – distinctly different from previous eras of globalization (cf Jones 2004) – that decisively changed the understanding of the nature, purpose, and determinants of development. The internationalization of production was no longer conceived as an exogenously given fact with equal impact on all countries, and the international context of national development policy gained in importance (Gore 2000). The technological advances in transport and communication technologies that made globalization possible also increased the awareness and understanding of the peoples of the world about both the commonality and the diversity of their values, needs and aspirations. This led to a questioning of the means by which poverty and other downsides associated with the contemporary global economy might be contained or resolved.

These economic and political changes triggered new theoretical views (and empirical evidence) in the area of development studies on what ‘development’ ought to encompass, and how it should be achieved.

**Table 9.1** Comparing the Traditional Development Paradigm (TDP) and the New Development Paradigm (NDP)

TDP		NDP
Development means	<ul style="list-style-type: none"> <li>- Natural factor endowments</li> <li>- Little attention for capabilities</li> <li>- Limited role of governments and incentive structures</li> <li>- Limited attention to process or dynamics of development</li> </ul>	<ul style="list-style-type: none"> <li>- Recourses; capabilities; entrepreneurship and markets (R,C,M)</li> <li>- Institutions and institutional Infrastructure</li> </ul>
Development ends	<ul style="list-style-type: none"> <li>- Mainly economic</li> <li>- Limited attention for public goods/bads</li> <li>- Means (working conditions) not part of ends</li> <li>- Limited attention for ownership, sovereignty, equity, justice, human rights, environment, security</li> </ul>	<ul style="list-style-type: none"> <li>- Development as freedom</li> <li>- Human development</li> <li>- Sustainable development</li> <li>- New priorities like relief of poverty, women’s rights, health care, quality of life, education, environment</li> </ul>
Relating means and ends	<ul style="list-style-type: none"> <li>- Monocausal and unidimensional</li> <li>- Static (single equilibrium models)</li> <li>- Most government action assumed to be distorting</li> </ul>	<ul style="list-style-type: none"> <li>- Multicausal and multifaceted</li> <li>- Holistic and dynamic</li> <li>- Non-market institutions/ organizations can be major enablers</li> </ul>
Prime actors/ Stakeholders	Market participants, shareholder capitalism; limited role of non-market actors	Markets, governments, civil society, supranational entities, participation and local ownership

Source: Dunning and Fortanier 2007; adapted from Dunning 2006



Most importantly, however, traditional development theories did not explicitly address the role of foreign direct investment (FDI) – and related to this the role of multinational enterprises – until approximately the mid-1990s. Various theories only implicitly highlighted that FDI could be a factor in host country development via its contribution to the capital stock, the transfer of technology, competition, and the creation of local linkages and trade. FDI and MNE (Multi National Enterprise) international activity form one of the most important dimensions of economic globalization. From the 1980s onwards trade and FDI have increased each year, both growing faster than total worldwide production. But FDI growth rates were considerably higher than the growth rates of international trade. In 2005, more than a third of all production was traded across national borders – much of which was company internal trade – whilst total FDI stock as a percentage of gross domestic product (GDP) rose to nearly 25 per cent (UNCTAD 2006). At the moment, more firms in more industries and countries than ever before are expanding abroad through direct investment. MNEs play a decisive role as the creators and disseminators of wealth in the present phase of globalization (Dunning 2001; Stiglitz 1998). Consequently, in many developing countries on which most concerns about the negative effects of globalization are concentrated, FDI has become a prime source of external funding and capital investment. Official development assistance (ODA) has remained stable, while FDI flows to developing countries increased substantially in the 1980s and 1990s (OECD 2006). Although primarily aimed at a relatively small number of developing countries, FDI has outpaced ODA as a source of finance.<sup>1</sup>

To take stock in particular of FDI in development, most recent macro-economic contributions have moved beyond the mere economic approach that has dominated development studies for a long time (see e.g. Greig et al. 2007 or Acemoglu 2004). This new and broader approach to the means and ends of development have been suggested to form a ‘New Development Paradigm’ (NDP) (Dunning 2006). The NDP includes three innovations over previous approaches to development (Dunning 2006; Dunning and Fortanier 2007). First, the NDP proposes addressing a much wider range of development aims, including social and environmental development next to economic growth. It hence reflects the shift towards a more inclusive definition of development that has already been described above. Secondly, the NDP acknowledges that firms – domestic and foreign – play an active role in the development process (as do other actors such as governments, NGOs or local communities). This means that firms are no longer seen as passive profit-maximizers, but that the corporate response to the ‘anti-globalization’ movement is taken seriously as a dimension worthy of analysis. For example, the UN Millennium Project (2005) identifies not only that the private sector (and MNEs) can contribute to achieving the MDGs by increasing productivity, creating jobs, paying taxes and ensuring the supply of necessary goods for reasonable prices, but also designates a number of relatively new roles for the private sector such as engaging

in public-private partnerships and responsible citizenship. This approach is also evident in the 8th UN Millennium Development Goal that calls for a global partnership for development, in which public, private and non-governmental actors each play an active role. The Global Reporting Initiative (GRI) comes to similar conclusions (GRI 2004). The third element that is strongly emphasized in the NDP is the critical role of institutions in achieving development objectives.

### 9.3 FROM MACRO TO MICRO: THE ROLE OF MULTINATIONALS IN SUSTAINABLE DEVELOPMENT

As part of the NDP's understanding of the relationship between FDI and host country development, the various *mechanisms* through which MNE can have an effect on development in particular have to be taken into consideration as well. For example, the creation of local backward linkages is often seen as very beneficial for local firms, as these linkages may enhance their sales and access to markets, and enables them to benefit from technology transfer and training of the MNE. However, there are many other mechanisms that play a role and need to be addressed when evaluating the host country development consequences of foreign firms, foreign investments and partnerships of MNEs with local firms. Examples of such mechanisms include technology transfer through labour migration or demonstration effects; competition and market structure effects; the sheer size effects of investments; and forward linkages. These have all been identified in the economic and business literature on the economic growth consequences of FDI. The NDP, however, also calls for a more active approach of MNEs in development: both as key partners in the process of societal transformation (Stiglitz 1998) and in activities related to Corporate Social Responsibility (CSR) activities such as implementation of environmental, health and safety management systems at their production sites, as well as engagement in philanthropic projects.

If we take these less traditional impact mechanisms into account as well, the large variety of mechanisms can be classified along two axes that form a 2-by-2 matrix, as in Table 9.2. The type of effect is positioned on the vertical axis, and the role of the multinational enterprise on the horizontal axis. The type of effect captures the conventional distinction between the direct effects of an investment, which occur solely at the site of the MNE, and the indirect effects that occur at firms related to the (activities of the) MNE. For example, the workers that an MNE employs itself constitute the company's direct employment effect, whereas the employment an MNE creates at a local supplier due to increasing demand for this supplier's products constitutes part of its indirect effects. The second variable, the role of the multinational, distinguishes between active and passive roles of MNEs. For those effects that occur without the MNE purposely striving to contribute to sustainable development, we ascribe a passive role for a firm; but when an MNE actively tries to beneficially affect sustainable develop-

ment (through for example CSR-related activities, philanthropy, or partnerships), it assumes an active role.

**Table 9.2**      **Mechanisms through which Multi National Enterprises (MNEs) affect sustainable development**

Multi National Enterprises Role		
Type of effect	Passive	Active
Direct (at MNE site)	Size effects (for capital base, employment, environment)	EN&S practices, labour conditions
Indirect (beyond MNE site)	Competition, technology transfer, linkages, alliances	Philanthropy, public-private partnerships, supplier conditions

### PASSIVE EFFECTS

The passive effects of an MNE for host country development are relatively well documented, (again) especially for the economic dimensions of development. *Direct* passive effects occur when an investment by an MNE adds to the host country's savings and investment volume, and thereby enlarges the production base at a higher rate than would have been possible if a host country had had to rely on domestic sources of savings alone. FDI may thus build up sectors or industries in which local firms have not (yet) invested, or enlarge the scale of existing farms, plants or industries. Positive direct effects may also lie in salvaging and recapitalizing inefficient local firms (Lahouel and Maskus 1999), thereby assuring that the scale of production at least does not decrease. Direct passive effects can be measured rather easily: it is the net increase or decrease in output and productivity, employment (quantity and quality), and pollution at the site of the MNE investment.

The *indirect* passive effects are those effects of inward investment that are generally designated as "spillovers" or "multiplier effects" in the economic literature. For example, linkages with buyers and suppliers are an important means through which MNEs can impact upon economic growth, since it is unlikely that MNEs can fully appropriate all the value of explicit and implicit knowledge transfers with their host country business partners (Blomström et al. 1999). Many empirical studies have found evidence of the creation of both backward linkages (e.g. Alfaro and Rodríguez-Clare 2004; Javorcik 2004; McIntyre et al. 1996) and *forward* linkages (Aitken and Harrison 1999).

In addition, an investment of an MNE changes the market structure of the industry. Such investments can stimulate competition and improve the allocation of resources, especially in those industries where high entry barriers reduce the

degree of domestic competition (e.g. utilities). Fears are sometimes expressed that MNEs may also crowd out local firms, which does not have to be problematic if they are replaced by more efficient firms, but that could also increase market concentration to such an extent that resource allocation could diminish (Cho 1990). From a political and social viewpoint, it may also be seen as undesirable.

Finally, since MNEs are frequently key actors in creating and controlling technology (Markusen 1995; Smarzynska 1999), they can be important sources for spreading managerial skills and expertise on products or production processes – either intentionally or unintentionally – to host-country firms (Blomström et al. 1999).

### ACTIVE EFFECTS

In addition to the passive effects of investments – those effects that occur through ‘standard business practice’ – the active effects of MNEs have received increasing attention. Partly driven by regulatory and stakeholder pressures, MNEs are taking action in order to contribute to sustainable development (KPMG 2005; Van Tulder 2008). This could have important implications for the development effects of FDI, not in the least because a small number of MNEs in most developing countries is responsible for the bulk of FDI (Van Tulder with Van der Zwart 2006). As with the passive effects of investments, the active role of MNEs in fostering development can be divided into direct effects – that occur at the facilities of the MNE themselves – and indirect effects – that occur externally.

The direct active effects encompass the environmental, health and safety, and employment practices of a multinational at its subsidiaries. Recent studies (KPMG 2005; Fortanier and Kolk 2007) show that approximately 70 per cent of the largest 250 firms worldwide are actively promoting workforce diversity and equal opportunity, good working conditions, and training. A similar number of firms addresses climate change issues and direct greenhouse gas emissions. Labour rights such as collective bargaining and freedom of association are mentioned by one-third of all firms. In addition to engaging in CSR activities within a firm’s boundaries, MNEs have also started to contribute to society in a more indirect way (i.e. outside their own facilities) through philanthropy and community investments, or through requiring their suppliers to adhere to social and environmental standards as well. A KPMG (2005) study showed that 75 per cent of the largest 250 firms worldwide claim to be involved in philanthropic activities; and almost 50 per cent has its own corporate charitable foundation. Schooling and educational projects are the most popular ones to contribute to (66%), followed by health programs including HIV/AIDS relief efforts (40%). These corporate philanthropy activities signal the growing acknowledgement of the importance of “social capital” and of civil society for the correct and profitable operation of business (cf. Wood et al. 2006). Philanthropy is increasingly represented as a vital aspect of

(global) corporate citizenship (Saiia et al. 2003). According to Zadek (2003) MNEs are entering the phase of “third generation corporate citizenship” which represents a far more active and open approach to civil society than before.

## 9.4 FROM GENERAL TO SPECIFIC: STRATEGIC MANAGEMENT OF CORPORATIONS AND POVERTY ALLEVIATION

Corporate strategies towards the more specific issue of poverty are as old as capitalism itself. Some of the early industrialists engaged for instance in setting up company villages, due to a lack of ‘public’ facilities and the laissez-faire role adopted by most governments. Poverty alleviation thus became part of ‘enlightened capitalism’ and a major aim of corporate philanthropists like Andrew Carnegie, Anton Philips, the Lever Brothers, Henry Ford and their likes. In later phases, however, the alleviation of the poverty of workers and their families, including the unemployed, became the prime responsibility of governments (welfare states) in the developed world or the target of corporate philanthropy and NGO ‘do-good’ activities in the developing world. Directly addressing global poverty has become a big corporate issue (again) since the beginning of the 21<sup>st</sup> century due to two related developments: (a) external pressure and (b) the introduction of new business models.

### EXTERNAL PRESSURE

In 2000, the Millennium Development Goals, formulated by 189 countries, served to renew interest in poverty. The prime goal (MDG1) specified halving poverty – defined as those people living on less than a dollar a day – by the year 2015. Perhaps more importantly, an instrumental goal (MDG8) was formulated, in which partnerships with private corporations and a good business climate were considered vital to achieving the involvement of the business sector in the eradication of poverty; this was also picked up by multilateral organizations such as the World Bank and the IMF.

With the increasing integration of developing countries into the value chains of Western companies since the fall of the Berlin Wall in 1989 and the start of the era of ‘globalization’, the issue received renewed attention in particular from Western trade unions and NGOs. Thus, “Fair Labour” and “Fair Trade” movements targeted the issue of working poor as a result of the unfair operation of the international trading system and the (perceived) negative consequences of the inclusion of workers in the international supply chains of multinationals. The anti-Nike campaign in the 1990s regarding the use of child labour was followed by the “clean clothes campaign” and a large variety of “stop child labour” campaigns. At the same time, focal companies like the world’s biggest retailer Wal-Mart were accused of unfair labour practices and also contributing to the increase of poverty.

It was claimed for instance that Wal-Mart sales clerks are paid below the federal poverty limits. The anti Wal-Mart campaign, “The high cost of low price”, suggested that Wal-Mart employees are also making intensive use of social security. Consequently, the issue of the working poor received a name: the “Wal-Mart effect” (see for instance *Business Week*, February 6, 2005). Concerns about the “Wal-Mart effect” have been joined by concerns about outsourcing, whereby Western firms ‘relocate’, ‘outsource’ or ‘offshore’ facilities to ‘low wage’ developing countries. In this development MNEs have been accused of actively stimulating a “race to the bottom”, whereby developing countries – and even developed countries – are played off against each other and encouraged to relax labour regulation, and lower wages and taxes to attract multinational enterprises. One response has been the International Labour Office’s intensified campaign for “decent wages”. Its original Constitution (1919) referred to the “provision of an adequate living wage” as one of the most urgently required reforms. However, the ILO conventions are notorious for their lack of ratification by member states.

#### **NEW BUSINESS MODELS**

While companies and their leaders in the 1990s had hardly any models and tools to prove their leadership on this issue, this rapidly started to change by the early 21<sup>st</sup> century. First, measurements on the impact of MNEs’ activities on poverty alleviation have become available – albeit rather rough ones. The Global Reporting Initiative (GRI 2004) has tried to link the core activities of businesses to the MDGs in the form of concrete reporting guidelines, for example by measuring the creation of jobs in the formal sector, which is considered critical in escaping the poverty trap. Secondly, labeling represents another way companies can attempt to impact on poverty. Labels enable a company or a group of companies to communicate its commitment to society and provide consumers with information on the quality and contents of products. In particular, fair trade labels have started to serve as a means of communicating the corporate approach to poverty alleviation. Thirdly, codes of conduct help corporations to level the playing field and promote standards that can overcome the lack of regulation in many countries on issues related to poverty (in particular on working conditions and minimum wages). Important developments have been in the form of the Ethical Trading Initiative (ETI 1998) and the Fair Labour Association (1998). In particular, the ETI Base Code has tried to apply a multi-dimensional definition of well-being and poverty for instance by referring to a “living wage” and “no excessive working hours” (IDS 2006).

Fourthly, new business approaches and models have become available. Very prominent in this area is the so-called “Bottom of the Pyramid” thesis, which views the four billion people who live on a per capita income below US\$ 1,500 (PPP) as a potential “multi-trillion dollar market”, especially for basic commodities such as food and clothing. The thesis contends that it should be possible to “eradi-

cate poverty through profits” (Prahalad 2005) as companies focus their resources on this market and innovate in order to develop products and services that meet the needs of the poor. Micro-credits and the foundation of the Grameen Bank by Mohammed Yunus – which earned him the 2006 Nobel Peace Prize – are perhaps the best known example of such a service. One of the problems with the BOP strategy is that part of the ‘market’ at the bottom of the pyramid is in practice already served by local firms and the informal economy. Multinationals therefore can ‘crowd-out’ more local firms and local employment than they create (negative indirect effects). There are therefore basically two types of BOP strategies: a ‘narrow BOP’ strategy that only focuses on the market opportunities, and a ‘broad BOP’ strategy that takes the wider repercussions and the net (direct as well as indirect) effects of the strategy into consideration. Only the latter approach will turn BOP strategies into a viable business contribution to poverty alleviation. Others have pointed to the threat to the reputation and security of in particular international corporations if the “issue” of poverty and the relationships with developing countries are badly managed (cf. Wilson and Wilson 2006).

The contribution of CSR strategies to align the interests of the poor depends on the circumstances and the concrete elaborations of business strategies in developing countries. In that context the two general strategies (passive/active) result in four specific CSR approaches with different procedural attributes in which the very CSR abbreviation also has four different meanings: in-active, re-active, active and pro-active (cf. Van Tulder with Van der Zwart 2006 ; Van Tulder and Kolk 2007). Table 9.3 summarises key characteristics of the four CSR approaches together with an operationalization of indicators of corporate poverty strategies. It links the macro-economic modelling of firm strategies of the previous section to the strategic perspective of individual firms in this section.

An *inactive* approach reflects the classical notion of Milton Friedman that the only responsibility companies (can) have is to generate profits, which in turn generates jobs and societal wealth and can therefore be considered a form of CSR. This is a fundamentally inward-looking (inside-in) business perspective, aimed at efficiency in the immediate market environment. Entrepreneurs are particularly concerned with “doing things right”. Good business from this perspective equals operational excellence. CSR thus amounts to “Corporate *Self*Responsibility”. This narrow approach to CSR requires no explicit strategy towards poverty alleviation. It aims at the prime “fiduciary duties” of managers vis-à-vis the owners of the corporation, which could imply affordable products, the growth of the corporation, paying taxes and job/employment creation, but only as an indirect by-product of a strategy aimed at profit maximization. When faced with the trade-off between job creation and efficiency enhancement (or shareholder value maximization), these firms will chose the latter. The company is relatively indifferent towards the issue of poverty. The corporation stresses economic growth (general

**Table 9.3** Four Corporate Social Responsibility (CSR) approaches towards poverty alleviation and development

PASSIVE		ACTIVE	
In-active	Re-active	Active: go-it-alone	Pro-active:
<b>Definition of CSR</b>			
'Corporate Self Responsibility'	'Corporate Social Responsiveness'	'Corporate Social Responsibility'	'Corporate Societal Responsibility'
<b>Main characteristics</b>			
<ul style="list-style-type: none"><li>• Legal compliance and utilitarian motives</li><li>• Efficiency</li><li>• Indifference</li><li>• Inside-in</li><li>• "doings things right"</li><li>• "doing well"</li></ul>	<ul style="list-style-type: none"><li>• Moral (negative) duty compliance</li><li>• Limit Inefficiency</li><li>• Compliance/reputation</li><li>• Outside-in</li><li>• "don't do things wrong"</li><li>• "doing well and doing good"</li></ul>	<ul style="list-style-type: none"><li>• Choice for responsibility and virtue</li><li>• Equity/Ethics</li><li>• Integrity</li><li>• Inside-out</li><li>• "doing the right things"</li><li>• "doing good"</li></ul>	<ul style="list-style-type: none"><li>• Choice for inter-active responsibility</li><li>• Effectiveness</li><li>• Discourse ethics</li><li>• In-outside-in/out</li><li>• "doing the right things right"</li><li>• "doing well by doing good"</li></ul>
<b>Approach to poverty alleviation</b>			
<ul style="list-style-type: none"><li>• No explicit statements on poverty</li><li>• We create jobs and employment (by-product of profits)</li><li>• Affordable products</li><li>• No code of conduct and low compliance likelihood</li><li>• No explicit support for labels</li><li>• No separate business model for poor</li></ul>	<ul style="list-style-type: none"><li>• Narrow BOP</li><li>• Creation of local employment used defensively</li><li>• Micro-credits as philanthropy</li><li>• Vague code and low specificity as regards poverty</li><li>• Support for Global Compact and modest support for GRI</li><li>• Dialogue vaguely mentioned</li></ul>	<ul style="list-style-type: none"><li>• Statement on moral unacceptability of poverty</li><li>• Definition of 'decent wage'</li><li>• Broad BOP</li><li>• Micro-credits as business strategy</li><li>• Technology and knowledge transfer</li><li>• Explicit support for MDG1</li><li>• Support for GRI</li><li>• Specific codes on poverty and fair trade</li></ul>	<ul style="list-style-type: none"><li>• Separate (strategic) business model for the poor</li><li>• Explicit support for all MDGs</li><li>• Active partnerships on poverty</li><li>• Explicit codes, strong support of GRI</li><li>• Technology and knowledge transfer specified for poverty</li><li>• high specificity and high compliance likelihood of codes</li><li>• Dialogues as an explicit tool</li></ul>

efficiency) and its general contribution to that as a precondition for poverty alleviation, without further specification of its own contribution. The company is extremely passive towards including poverty-related initiatives in its (core) business practices.

A *re-active* approach shares a focus on efficiency but with particular attention to not making any mistakes ("don't do anything wrong"). This requires an outside-in orientation. CSR translates into Corporate Social *Responsiveness*. Corporate philanthropy is the modern expression of the charity principle and a practical manifestation of social responsiveness. In this approach, the motivation for CSR is primarily grounded in "negative duties" where firms are compelled to conform to



informal, stakeholder-defined norms of appropriate behaviour (Maignan and Ralston 2002). The concept of ‘conditional morality’ in the sense that managers only ‘re-act’ when competitors do the same is also consistent with this approach. This type of firm deals with the issue of poverty primarily when confronted with actions of critical stakeholders, for instance in the area of “working poor” and in an effort to limit the negative influences of firm strategies on poverty or restore corporate legitimacy (Lodge and Wilson 2006). Primarily in reaction to concrete triggering events – and often not spontaneously – these companies legitimize their presence in developing countries or in socially deprived regions by arguing that they potentially transfer technology, contribute to economic growth and create local job opportunities, but without specifying it in concrete terms or taking up direct responsibility. The company wants to reduce its vulnerability as regards the issue of poverty. Poverty (the bottom of the pyramid) becomes in particular an opportunity when the growth possibilities in the existing markets are declining. The bottom of the pyramid is narrowly addressed as a marketing opportunity. Support for guidelines like the UN’s Global Compact – which was neither specific nor required high compliance likelihood before the secretariat engaged in a major upgrade in 2008 – is the typical approach of a re-active CSR strategy (see Kolk and Van Tulder 2005).

An *active go-it-alone* approach to CSR is explicitly inspired by ethical values and virtues (or ‘positive duties’) of the entrepreneur itself. Such entrepreneurs are strongly outward-oriented (inside-out), and they adopt a ‘positive duty’ approach. They are set on doing ‘the right thing’. CSR in this approach gets its most well-known connotation – that of Corporate *Social* Responsibility. This type of firm has a moral judgement on the issue of poverty and tries to come up with a number of activities that are strategic (core activities) and/or complementary to its own corporate activities. Such firms for instance can define what ‘decent wages’ are and can come up with substantial philanthropic activities towards poverty alleviation in markets where it is not active. The re-active firm will primarily locate its philanthropy in the vicinity of its corporate activities (thus the growing attention to so-called strategic philanthropy). The active company accepts (partial) responsibility for the issue of poverty, in particular where it is directly related to its own activities and responsibilities. Poverty (the bottom of the pyramid) is explicitly addressed as a morally unacceptable issue for which perhaps entrepreneurial solutions exist. The (indirect) job-creating effects of the company with its suppliers are also specified. In case this company embraces for instance micro-credits, it is seen not only as a regular market opportunity or a PR instrument but as a strategic means for reaching the real bottom of the pyramid for which concrete criteria should be developed to measure its effectiveness and create ethical legitimacy.

A *pro-active* CSR approach materializes when an entrepreneur involves external stakeholders right at the beginning of an issue’s life-cycle. This pro-active CSR

approach is characterized by *interactive* business practices, where an ‘inside-out’ and an ‘outside-in’ orientation complement each other. In moral philosophy, this approach has also been referred to as “discourse ethics”, where actors regularly meet in order to negotiate/talk over a number of norms to which everyone could agree (cf. Habermas 1990): “doing the right things right” (or “doing well by doing good”). This form of Corporate *Societal* Responsibility (Andriof and McIntosh 2001: 15) shifts the issue of CSR from a largely instrumental and managerial approach to one aimed at managing strategic networks in which public and private parties have a role, and firms actively strike partnerships with NGOs to come up with more structural solutions to poverty. The former CEO of Unilever, Anthony Burgmans, explains “CSR” as “Corporate *Sustainable* Responsibility” in this context. Firms that aim at a pro-active poverty strategy are most open to the complex and interrelated causes on poverty and acknowledge that poverty can only be solved through partnerships and issue ownership of all societal stakeholders involved. This type of firm is also willing and able to see the problematic relationship between low wages and/or low prices with low economic growth which could hamper a more structural approach to poverty. A possible legal elaboration has been provided by Lodge and Wilson (2006) who introduced the construct of a “World Development Corporation” – a UN-sponsored entity owned and managed by a number of MNEs with NGO support.

#### **Box 9.1 Corporate strategies towards poverty alleviation in practice**

Recent comparative research of the strategies of large corporations (Van Tulder 2008) shows that an increasing number of firms and corporate leaders have taken initiatives in directly and actively addressing the issue of poverty. Around 58 of the largest 100 corporations had undertaken some initiative on it. At least four firms explicitly communicated a moral statement that poverty is unacceptable. One out of five corporations had also developed poverty-oriented programs in their philanthropy activities. One out of ten firms on average – in particular, American and Japanese firms – consider the provision of ‘affordable products’ as an important contribution to poverty alleviation. One out of four firms on average portrays the creation of local employment opportunities as a major issue of development, half of this group (12) further specified that to include also indirect employment at suppliers. Decent wages, however, are only defined by four corporations. Seventeen corporations have expressed general support for the Millennium Development Goals (MDGs). One-quarter of the European firms and less than 7 per cent of the American and Asian firms support the MDGs. As regards poverty-related international codes and labeling initiatives, the ‘Fair Trade’ label has been endorsed for a number of products in their product range by at least four international retailers. The Ethical Trading Initiative is supported by three corporations. On average, however, most large companies still tend to favour their own labels and poverty-related codes, whilst not endorsing already existing codes or standards – such as the ILO standards. As many as 23 firms from a wide variety of industries consider micro-credits an interesting option as a complement to their main business strategy. Eight of the 100 largest firms mention the BOP as a

possibility, but have primarily embraced it as yet another market change to sell products in a poor region. Only two firms (Citigroup, 14; Nestle, 53) have been arguing in favour of a broader BOP strategy in which they are developing an explicit view on how this strategy actually addresses poverty alleviation as a result of direct and indirect effects.

This leads to the following spread of poverty approaches with leading firms in the world (Table 9.4). Most companies have adopted combinations of strategies, which explains why the percentages do not add up.

**Table 9.4 Poverty approaches of Fortune 100 corporations (2006) [% of row category; overlap possible]**

	<b>PASSIVE</b>		<b>ACTIVE</b>	
	<b>In-active</b>	<b>Re-active</b>	<b>Active/alone</b>	<b>Pro-active/partners</b>
Total (N=100)	63%	55%	33%	4%
Europe (N=52)	48%	67%	52%	8%
USA (N=30)	77%	47%	13%	0%
Asia (N=15)	93%	27%	7%	0%
Developing (N=3)	33%	66%	33%	0%

European corporations have clearly adopted elements of the most active approaches towards poverty, whereas Asian firms have been the most in-active. The active approach gives the CEOs of European multinationals a particular stake in leading the way towards the new development paradigm. Firms like Nestle and Shell have taken interesting initiatives, which also include a large number of partnerships with NGOs. The corporatist European tradition of institutionalized negotiations with trade unions and governments proved helpful. An in-active approach is understandable in particular for Chinese companies, since the leading paradigm for national development is still economic growth, which requires that companies concentrate on growth without reference to wider social and ecological dimensions. American firms remain relatively stuck in a re-active strategy at best. This is due to the legal system in which they operate. For instance, Wal-Mart is pushing for stricter social standards in its supply chain in China, in a move to comply with the mounting criticism of its approach. The impact on working conditions is likely to be high, but can hardly be considered to represent an active approach towards poverty. The bulk of the firms, in sum, still remains relatively passive in their poverty approach, but the trend towards more active (non-reactive) strategies is nevertheless observable. It can be witnessed in a number of leading sectors, for instance banking, that have taken interesting sector-wide initiatives towards poverty alleviation. The financial crisis has further stimulated big companies – all public – to search for bigger societal legitimacy, which implies initiatives towards sustainable development. Managers in all major companies – including those in China – have stated in a variety of ways that they are searching for more pro-active strategies. The search is for the creation of appropriate preconditions.

## 9.5 FROM PASSIVE TO ACTIVE: THE SEARCH FOR PARTNERSHIPS

Since the 2002 World Summit on Sustainable Development (WSSD) in Johannesburg, ‘cross-sector’ partnerships have become important instruments for addressing problems of global development and reaching the Millennium Development Goals (MDGs), for which the contribution of companies is seen as crucial. Additionally, there has also been increasing interest in public-private partnerships, in which companies cooperate with governments or international organizations (Chataway and Smith 2006; Samii et al. 2002). Following the WSSD in Johannesburg, more than 300 partnerships were registered by the UN secretariat by the end of 2006. The actual knowledge of the nature, dynamism and effectiveness of development partnerships is rather limited at the moment, whilst the number of systematic partnership studies remains scant (cf. Kolk et al. 2008; Van Tulder and Kostwinder 2007; Rondinelli and London 2003; Samii et al. 2002; Selsky and Parker 2005; Warner and Sullivan 2004).

Partnerships come in a variety of forms. They are sometimes dubbed ‘cross-sector’, ‘PPPs’, ‘multi-stakeholder’ partnerships and the like. The confusion of terms is illustrative of the present stage of partnership development. Three basic types of partnerships and consequently three different partnership rationales can be distinguished:

1. *Bipartite: Public-private partnerships* address the inadequate (private and public) provision of public goods. This is also known as the “policy rationale” for partnerships (cf. OECD 2006: 19) or as the “underinvestment” problem in which neither the state nor companies invest sufficiently. This problem has been particularly tangible in the utility sectors (cf. Megginson and Netter 2001).
2. *Bipartite: Private (for profit)/nonprofit partnerships* address in particular the underinvestment in the “social capital” of a country that results from the trade-off between the efficiency of the market and the equity orientation of civil society (cf. Putnam 2000).
3. *Tripartite partnerships* include all three actors: state, companies and civil society (non-profit or NGOs). They aim in particular at the problems that result from the “institutional void” that develops due to retreating governments and weak governance structures (Van Tulder with Van der Zwart 2006).

In practice, for individual firms and corporate leaders, partnerships are still not that obviously part of their strategies. Many firms still think of their development effort as a “go-it-alone” strategy. Only one out of five corporations of the global 100 is at the moment searching for a more pro-active strategy including “partnerships” with NGOs and international organizations on the issue of poverty. Firms mention that they are partnering with NGOs or international organizations in areas that are related to the issue of poverty: community development, microfinance, literacy programmes and the like. Whether “Public-Private partnerships” can

thereby really be classified as a pro-active strategy depends on the nature of the partnership and the issue involved. In the case of partnerships that were (temporarily) founded for disaster relief for instance – in the case of ecological disasters like tsunamis, earthquakes or hurricanes – the approach has to be qualified as ‘reactive’ at best.

Exemplary evidence of the partnership approaches adopted by a number of companies (Van Tulder 2008b) shows that European firms have embraced partnerships more and in a much more (pro-)active manner than leading American firms. This is relatively independent of the actual number of partnerships. American firms embrace partnerships more often and more (re-)actively than leading Asian firms. This pattern corroborates with the general CSR strategies of these three varieties of capitalism. The European lead in partnerships is also precipitated by the fact that governments, development NGOs as well as firms share a tradition of more cooperative (or corporatist) institutional relationships in the home countries. Dutch companies and NGOs are particularly interested in using partnerships as a means to achieve goal alignment between their own efforts in developing countries and those of governments and NGOs (cf. Van Tulder and Kostwinder 2007). Recent research at RSM Erasmus University shows that AEX-quoted companies – i.e. with their headquarters in the Netherlands – are increasingly searching for external alignment through partnerships to increase the effectiveness of their approach in four areas: health, human rights, ecology and development. This amounts to an average of 2.6 partnerships in ecology, 2.4 in development, 2.1 in health and 1.8 in human rights per company.

The search of NGOs to partner with companies and the efforts of the Dutch government to facilitate these partnerships are mutually reinforcing for this development. For NGOs and governments, benefits include not only the direct support for the cause, but also more indirectly access to technical, management and/or marketing expertise, widening of networks, greater leverage and visibility, and career development and learning opportunities for current and future staff members and volunteers. Companies can, in turn, get access to specialized NGO and government know-how and networks in their area, learn about stakeholder engagement and interactions, improve their credibility, legitimacy and brand reputation, thus increasing awareness of them and their attractiveness to new and existing customers as well as employees (Elkington and Fennell 1998; Kanter 1999; Rondinelli and London 2003; Yaziji 2004). This applies in particular to those countries where corporate investment contains substantial risk.

Despite clear positive intentions, an obvious rationale and a number of widely published initiatives, the actual number of clearly successful development partnerships remains still rather limited in comparison to the general development effort. This has at least four reasons. First, partnerships are still a relatively recent

phenomenon. This implies that only limited evaluation studies have been executed, and limited – generally accepted – knowledge exists on lessons learned and their effectiveness. Tripartite partnerships are even more recent than bipartite partnerships.

Secondly, the problems of goal alignment between organizations from different societal backgrounds are considerable. Partnerships need to have both non-economic and economic objectives, aiming to share resources, knowledge and capabilities between the company and the non-profit partner (Berger et al. 2004). This contains substantial conflict of interests and makes it very difficult to manage the actual partnership. A partnership approach is more complex than prevalent development projects which involve one donor (either government or NGO) and clearly identifiable ‘aid’ recipients. The added value of a partnership is more difficult to prove (or disprove) than in the case of a simple project. An evaluation study in Germany, for instance, where the government allocated € 56.4 million in 1999 for 36 partnerships in seven different countries, turned out to be too complex because of a lack of clear and generalized criteria (Altenburg and Chahoud 2003).

Thirdly, the dynamism of partnerships is very particular. For instance, free-rider behaviour is a recurring problem in alliances and partnerships – particularly relevant for public-private (for profit) partnerships (cf. OECD 2006) – which can severely hamper its ultimate effectiveness and efficiency. Besides, partnerships might crowd out other forms of development assistance (Weyzig and Vander Stichele 2004) and can form an excuse for doing less than otherwise required or needed. Partnerships increase the risk of “putting the blame” on the partners in case of malperformance and contain considerable reputation risks for the participants. Partnerships involve some loss of autonomy for the participants, which needs to be offset by a gain in effectiveness in reaching development goals. This is not easy to establish. Fourthly, partnerships are very difficult to compare. Each partnership is different, with different partners, locations and objectives (Kolk et al. 2008). Partnerships often imply immense investments from each partner. Like in other major PPPs – primarily as regards infrastructure projects – around the world it proves very difficult to manage and monitor these projects. Even in developed countries with good governance structures, large infrastructure projects regularly run out of time, budget and commitment.

## 9.6 CONCLUSION: THE CHALLENGES AHEAD

This contribution has documented and argued in favour of a move towards more inclusive thinking on sustainable development. Sustainable development to a large extent depends on the *balance* that can be established between the three societal spheres of market, civil society and the state. The recent move towards

‘partnerships for development’ can be seen as a logical and new phase of development thinking in which partners commit to long-term, structural interaction based on a shared analysis that every actor suffers from a number of failures, consequently a shared vision of sustainability and a shared ambition that all partners should play a role in its achievement. Partnerships not only fill up the “void” left by the failing societal actors, but also add a new dimension to the development effort, which has the potential to increase the effectiveness of each partner’s effort. It is aimed at market and justice *creation*, whereas the previous efforts of development organizations were basically aimed at the *distribution* of welfare and justice. Development, thereby, becomes a matter of pragmatism, enlightened (long-term) self-interest and investment projects, rather than of philanthropy, good intentions or subsidy schedules. Development is an individual as well as a collective responsibility. The CSR activities of companies can contribute to sustainable development but cannot substitute for governments and civil society taking their own responsibilities, not in the least because many large companies are at the moment relatively inactive or yet unsophisticated in pursuing sustainable development. The increasing number of development partnerships can help fill the governance and investment voids left in many development projects, but cannot substitute for each actor investing in their own capacities and competencies. If governments think that a partnership with business may lower its financial or intellectual commitment, the project is bound to lose momentum soon after its start. The history of partnerships has shown that projects fail in particular because of underinvestment in their own capacities and underestimation of the changing roles necessary during the actual partnership.

The preconditions for sustainable development include sufficient amounts of three components at the same time: (1) private goods, best provided by market players; (2) public goods, best provided by governments; (3) club goods, best provided by NGOs and civil society organizations. If any of these components is missing or underrepresented, sustainable development becomes a hard nut to crack. This article documented the rise of new – more cooperative – business models that have the potential to present a more sophisticated approach to sustainable development given these preconditions or that might partly complement some of the deficiencies that have appeared in a number of countries. Partnerships, actively sought by development NGOs and governments, can persuade all participating actors (including companies) to move from a re-active to an active approach, but this is a delicate process that requires investment in mutual understanding and respect, not necessarily in mutual trust. Firms, governments and NGOs do not partner because they trust each other, they (start to) trust each other because they engage in a partnership.

In sum, the new agenda for a ‘partnership’ approach towards sustainable development faces at least the following challenges:

1. how to achieve *goal alignment* between various stakeholders at the local as well as international level;
2. how to move from the dominant “subsidy model” as primarily adopted by NGOs and governments towards an *investment model* that classifies the partnership as an investment into a sustainable business model;
3. how not to get “trapped” into a partnership, which implies that not only entry, but also *exit conditions* are specified at the start of the project;
4. how to *align* the partnership type with development aims: a specification of past development projects is needed that are particularly susceptible to the partnership approach and a decision-making model to define what type of partnership (tripartite/bipartite) should be chosen;
5. how to remain *pragmatic and focused on the effectiveness* of the partnership, with individual partners that have different interests and ideals;
6. how to deal with *changing roles* of partners over the course of the partnership; how to specify joint commitment and finance;
7. how to *learn* from the partnerships;
8. what *new forms of governance* look like that facilitate effective and efficient partnerships for development.

These dimensions should be given ample space in any modern approach towards development. Elsewhere (Van Tulder and Kostwinder 2007), these dimensions have been elaborated into a framework for monitoring development partnerships. The contours are there, but the practice needs robust elaboration and evaluation. This presents a partnership challenge in itself.



## NOTE

- 1 It remains important to note that private financial transfers remain primarily aimed at a limited number of countries and can be extremely volatile, so ODA remains important for the poorest countries in particular.

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## 10 WHY ‘PHILANTHROCAPITALISM’ IS NOT THE ANSWER: PRIVATE INITIATIVES AND INTERNATIONAL DEVELOPMENT

*Michael Edwards*

The rise of ‘private initiatives’ – by NGOs, philanthropic foundations and other civil society groups – has been one of the most striking features of foreign aid over the last ten years, yet (especially in regard to philanthropy) it remains poorly understood and inadequately debated. At a conservative estimate, private aid flows already amount to over \$ 25 billion a year, and the trend is rising, so at some point in the future private aid may exceed official development assistance from donor governments.<sup>1</sup> This trend raises significant questions about the impact and accountability of private development assistance, and these questions have been thrown into sharper relief by the recent emergence of ‘philanthrocapitalism’ – the use of business thinking by large new donors to transform philanthropy, coupled with the deployment of market mechanisms on a much larger scale to promote development and social change. This movement tends to eschew traditional, democratic modes of accountability, and has thus far escaped any systematic scholarly or public scrutiny. Foreign aid from NGOs, other civil society groups and traditional philanthropic foundations generates questions of its own, of course, but these questions have at least been raised and debated to some extent in the development literature. Therefore, this chapter focuses on the potential costs and benefits of ‘philanthrocapitalism’ as compared to other forms of private aid.

Is more private aid the answer to the perceived failings of official development assistance and international institutions? Some commentators think so, often as part of a broader attempt to prove the superiority of private (market-based) solutions to social problems and discredit the role of government. For example, the Hudson Institute, a conservative think tank in New York, publishes an annual ‘Index of Global Philanthropy’ that is intended to show that “it is private funds that make the difference in poor countries, and here the United States leads the pack” (Adelman 2003: 1). The relative decline in the position of the World Bank and the specialized agencies of the United Nations within the international system has also led some to see philanthrocapitalism as a natural replacement, but as we shall see the volume of private resources is unlikely to be adequate without continued access to subsidized development finance, and private donors have agendas of their own which lack the shared decision-making structures of inter-governmental bodies, unsatisfactory as they are. Therefore, the increasing domination of the international development agenda by philanthrocapitalists is unlikely to be politically acceptable to governments and civil society.

There is a strong element of this kind of thinking in ‘philanthrocapitalism’, which sometimes appears to substitute for state responsibility in the provision of global public goods, but not all of the ‘new philanthropists’ see the debate in zero-sum terms. For them, as for most independent observers of foreign aid, the key is to improve the *complementarity* of different sources and approaches, something that remains an unfulfilled and urgent task for sure. NGOs and foundations have always seen themselves as niche-players – filling gaps, generating alternatives, and pump-priming activities that government-to-government aid is unable or unwilling to finance. So although the future of foreign aid almost certainly lies in better public-private partnerships, much disagreement remains on how to structure them so that they create genuine added value.

The other subtext of this debate is a renewed contest over the meaning of ‘development’ and how best to promote it through markets, states and civil society activism. This contest (at least in rhetoric) had largely been won prior to the rise of philanthrocapitalism, which challenges the notion that social goals are best addressed through collective (i.e. non-market) action. More specifically, the philanthrocapitalists tend to emphasize investments that increase poor people’s immediate access to material assets, goods and services, as opposed to efforts by NGOs and traditional foundations to affect the long-term transformation of the social, political and institutional landscapes that determine poverty and inequality. Clearly, this is not an either-or choice, and the most important interventions probably lie at the intersection of both these dimensions of development. Nevertheless, it is the ‘development-as-transformation’ approach that is challenged by some current developments in philanthropy, and it is important that – as in other chapters of this book – we continue to pay attention to the deeper issues of empowerment, politics and social relations as they affect and are affected by changing patterns of foreign aid. To do otherwise would be to ignore the question of complementarity raised above, for it has always been NGOs and civil society groups that have kept these issues in focus and forced them into the mainstream of development policy and practice. Interestingly, there is some evidence that the philanthrocapitalists are beginning to learn this lesson as their investments converge on older methods of development assistance as practised in the NGO community.

These sharpening debates are extremely important because – as the best of the recent raft of popular books on development conclude – positive change is internally driven, but external help at critical moments can really make a difference, *if it is sensitively designed and applied*.<sup>2</sup> In this sense, the role of foreign aid is to strengthen the capacities and opportunities required for countries to respond successfully but in different ways to the challenges of a globalizing economy, political coalition-building and embedded social institutions. The emphasis should be on making the international environment protective of the policy space



required to exercise local control and accountability; supporting internal political and institutional processes that create incentives for investment and enable public and private actors to make the most of the room-to-manoeuvre they need to respond and adapt to changing circumstances; and redistributing productive assets through the population as broadly as possible so that all can participate in the benefits of growth and help to secure the political stability required to sustain it over time (Edwards 2004). These are the benchmarks against which all foreign aid should be measured, but different types of private initiatives may perform very differently when set against them.

### 10.1 PRIVATE INITIATIVES – WHAT KIND AND HOW MUCH?

Clearly, the label 'private initiatives' covers a multitude of different actors, organizations and approaches to foreign aid, often having little in common with each other. The role and impact of the Gates Foundation bears little relation to that of the landless movement in Brazil or the Catholic Church globally. Some observers also include private remittances and foreign direct investment under this label, which seems more than a little misleading since these revenue streams – though potentially very important in development terms – lack the intentionality and targeting of the rest of foreign aid. Studies of the developmental impact of remittances report a complex picture in which impacts are difficult to isolate and the majority of resources go to finance private consumption, with ambiguous long-term effects (Jones 2008). But even when restricted to philanthropy and NGO investments, the degree of internal diversity is very high. Accurate and comprehensive data for these investments are hard to come by, making it impossible to generalize about or aggregate the effects of different kinds of private initiatives with different strengths, weaknesses and impacts on the ground. Therefore, I will focus in this chapter on a particular subset of this universe, namely Northern donor NGOs like Oxfam or HIVOS, and private charitable foundations of both 'new' and 'older' genesis. What do the data tell us about the size and spending of these organizations?

Globally, Northern NGOs contributed some \$ 14.7 billion in foreign aid in 2005, or 14 per cent of total Official Development Assistance (ODA), up from 2.5 per cent in 1990 and 5 per cent in 2001 (Agg 2006: 17). This figure rises to 18 per cent if one excludes debt cancellation (Reality of Aid 2006: 69), and 30 per cent if one includes 'all NGO aid-funded activities' (Riddell 2007: 259) including aid to and from Southern NGOs and funds that are channeled through all NGOs by donor governments. Even this total is an underestimate since many private transfers go unrecorded in official statistics.

It is impossible to find an accurate figure for total spending in developing countries by private foundations worldwide, but the United Nations estimates that \$

4.5 billion was spent by foundations on 'development activities' in 2006, up from \$ 2 billion in 1999 (United Nations 2006: 1). Of this total, \$ 3.8 billion came from US foundations (Marten and Witte 2008: 8) and \$ 607 million from foundations in Europe (*ibid.*: 10). Nevertheless, international giving is still unusual. Less than 1 per cent of the world's 100,000-plus foundations make grants in the developing world according to UN statistics (United Nations 2006: 2), and foundations which spend the majority of their resources in the developing world are very rare, limited to famous names like Ford and Gates in the US and a handful of others elsewhere such as the Wellcome Trust in the UK.

As a result, aid from foundations is heavily skewed towards the priorities of a small number of institutions, especially in the health field, and towards a small number of developing countries, often not the poorest. The World Bank estimates that 45 per cent of international grant-making by US foundations goes to a handful of emerging economies such as China, India, Brazil, and South Africa (Marten and Witte 2008: 9), while only 29 of the 126 countries in which European foundations made grants in 2005 were classified as 'least developed nations' (*ibid.*: 10). Because so few foundations have offices in the countries in which they work, grants often go to or through other Northern NGOs or international agencies. These patterns may have important implications for the developmental impact of philanthropic initiatives.

Trends over time are even more difficult to pinpoint because time series data are so patchy, and what is included in the definition of private aid changes year by year. The Index of Global Philanthropy (Hudson Institute 2008: 17) shows an increase in total private aid from \$ 71 billion in 2004 to \$ 168.6 billion in 2006 for the US, the latest year for which data are available, with the US government's share of total development assistance falling by 28 per cent in the same period. However, an increase in private remittances made up the lion's share of the difference between these two years. Foundation spending will certainly increase in the future as a result of projected inter-generational transfers of \$ 55 trillion over the next 40 years in the US alone (much of which will find its way into philanthropy as a result of tax advantages); the expansion of philanthropy among the very wealthy in emerging economies such as China, India, Mexico and Brazil; and the rising popularity of development-related investments by new foundations including Gates, which estimates a total donation of at least \$ 100 billion during the lifetime of its founders (Edwards 2008: 83).

These are significant figures, but it is important to keep private aid in perspective. There are no data that support the claim that private aid outranks ODA, nor is it likely to do so in the next ten years. This claim is true only if one includes every conceivable non-public source of revenue (especially remittances and FDI), and if the analysis is restricted to a handful of countries in which ODA falls well below

the 0.7 per cent of GNP target. Where ODA forms a higher percentage of GNP, the share of total aid channeled through NGOs and foundations is usually lower, for example in the UK (where the Hudson Index shows total private aid of \$ 1.61 billion in 2006) or the Netherlands (\$ 0.28 billion: Hudson Institute 2008: 48). In countries with lower official aid budgets (and a greater suspicion of government-to-government aid), it is usually higher, with the US as the most striking example. Here, ODA in 2006 constituted only 12 per cent of "total US economic engagement with developing countries", while 'private philanthropy' constituted 18 per cent (including both NGOs and foundations), remittances 37 per cent, and private capital flows 32 per cent (*ibid.*: 17). However, the total for 'private philanthropy' is probably an over-estimate because it includes every possible kind of private aid including donations by churches and religious groups, scholarships from universities and "charitable giving by US businesses".

The reality is that except in a small number of situations where private actors already play an influential role (like global health policy in the case of the Gates Foundation), it is still official aid that dominates development assistance. In any case, for most foundations and NGOs it is not the quantity of resources that underpins impact and effectiveness, but the quality i.e. how they are invested, an issue on which the data say very little. This assumption may be tested in the future by new foundations such as Gates, Carlos Slim in Mexico and the Clinton Global Initiative, which do aim to channel much larger sums of money to international development.

Given the constraints of these data and the methodological problems of combining different forms of private aid under the same heading, one should not place too much faith in any of these figures. The only clear conclusion they reveal is that private aid is increasing in both absolute and relative terms at a time when official ODA is static or declining, though even this may be a temporary trend if donor governments honor their obligations under the Millennium Development Goals. Everything else is the subject of controversy, plagued by a lack of information that makes conclusions dangerous, or subject to research and evaluation that is insufficiently rigorous to reveal much about what private initiatives actually achieve beyond the numbers. This is especially true for private philanthropy, which has much to learn from the experience of development NGOs over the last 20 years.

## 10.2 NGO INITIATIVES

As a result of a decade or more of careful research, we know a good deal about the impact and effectiveness of NGOs in development, though nowhere near enough to make definitive judgments in the aggregate – most studies focus on the micro (project) level in very specific contexts. It is also obvious that making judgments about a universe as diverse as development NGOs is replete with dangers of over-

generalization and difficulties of attribution, measurement, context, and timing. Nevertheless, we have enough case-study collections and surveys of NGOs across sectors and countries to draw some preliminary conclusions.<sup>3</sup> As Roger Riddell (2007: 286, 309, 310) says in what is probably the fairest and most comprehensive survey of the NGO evidence to date, “claims that NGO capacity-building and institutional development do not work are very wide of the mark”, “there is a strong sense that these efforts have met with greater success in the NGO than in the official aid sector”, and overall “the assessment is encouraging, although there remains a significant gulf between the impact of most discrete NGOs and what is still needed to enable people (...) to live a life permanently free from poverty”.

Riddell’s formulation is important because of the emphasis it places on empowerment, capacity-building and institutional development as factors underlying NGO success – an approach to development described as “leverage rather than delivery” in the NGO community or the “onion-skin strategy” in Alan Fowler’s words. This means a solid core of concrete practice (either direct project implementation or funding for other organizations and their work), surrounded by successive and inter-related layers of capacity- and network-building, learning, advocacy and campaigning (Edwards, Hulme and Wallace 1999). Recent evaluations of NGO investments (including by the Dutch co-financing agencies) confirm the positive results of these strategies in promoting civil society participation in both markets and governance (Guijt 2008).

The professionalization of development NGOs that took place during the 1990s certainly had some costs, but what emerged after 2000 was a more thoughtful and self-critical sector with greater credibility and potential impact in just these areas. As I have argued elsewhere, one would have to present an extreme version of the counterfactual to claim that the world would be a better place *without* the rise of development NGOs, however patchy their impact may have been (Edwards 2008a). There *has* been a positive change in the distribution of opportunities to participate in economic growth, democratic processes, and debates over development policy, and in the capacities and connections required by NGOs to play their roles effectively in these areas, even if global trends in poverty and power relations, inequality, environmental degradation and violence are not all heading in a positive direction.

In other words, some of the preconditions or foundations for progress are being laid, brick by brick, organization by organization, community by community, vote by vote. And the more success NGOs have in these areas, the more potential they create for impact in the broader systems, structures and policies that underpin larger-scale advances in economic growth, democratic politics, and social development. As early evidence for this kind of aggregate impact at the macro level, one could cite the fact that NGOs have already changed the terms of the debate on glob-

alization, leading to the emergence of a new orthodoxy about the need to manage the downside of this process, level the playing field, and expand 'policy space' for developing countries; cemented an intellectual commitment to participation and human rights as basic principles of development and development assistance; and kept the spotlight on the need for reforms in global governance on issues such as trade and investment, global warming, Africa, and the future of humanitarian intervention.

On the other hand, it is fair to point out that development NGOs have not changed power relations on anything like the necessary scale in the crucial areas of class, gender and ethnicity. They have not established strong connections with social movements, parties and other formal actors who are more embedded in the political processes that are essential to sustained change. They have not innovated in any significant sense in the form and nature of their organizational relationships, with too little attention being paid to improving downward accountability or generating diverse, local sources of funds for partners in the South (a weakness that underpins many other problems including legitimacy and political threats to organizations perceived as 'pawns of foreign interests').

Many Northern NGOs have internalized functions that should have been distributed across indigenous organizations, franchising their global brands instead of supporting authentic expressions of civil society, and crowding out Southern participation in knowledge creation and advocacy in order to increase their own voice and profile. NGOs may give a nod in the direction of 'leveling the playing field', diversifying NGO representation in the international arena, empowering marginalized voices, building the capacity of actors in the South for independent action, and helping them to sustain themselves through indigenous resources, but in practical terms the 'institutional imperatives' of growth and market share often dominate the 'developmental imperatives' of organizational and social transformation.

It is these failings that may block any significant increase in the aggregate impact of NGO initiatives in the future, because their leverage over the drivers of long-term change will continue to be too weak, even if more foreign aid is channeled to and through them. Some of the factors that stand in the way of greater impact lie outside NGOs' control – in the constraints imposed by the security agenda that most government donors have adopted since 2001, for example, or the increasing bureaucracy and short-termism of much official aid (Derksen and Verhallen 2008). Others seem self-imposed, such as an unwillingness to think and act more boldly in the world of development alternatives and confront the legal and conceptual difficulties of connecting work on civil and *political* society more creatively when foreign aid is used. Nevertheless, the development NGO community has at least begun to reflect on these issues in a serious way, and to embark on some of the

necessary reforms – shown, for example, in the changes to internal structure and external patterns of spending that have already been made by pioneers such as ActionAid globally and ICCO in the Netherlands. Compared to these pioneers, most philanthropic foundations look much less innovative and self-critical, and they are in danger of ignoring some of the key lessons that NGOs have already learned about their work.

### 10.3 INSTITUTIONAL PHILANTHROPY

Institutional philanthropy – the world of privately endowed foundations – is a diverse community, and little is known about its impact on international development. Over the last few years, a number of fault-lines have opened up inside this community, variously described as ‘old’ versus ‘new’ foundations, ‘strategic’ (or ‘venture’) philanthropy versus ‘social justice’ philanthropy, and ‘philanthrocapitalism’ versus ‘social transformation.’ These distinctions can be exaggerated, but they are not insignificant, since what little evidence we have suggests that different approaches to philanthropy have different impacts on the drivers of development. The record of older foundations like Ford and MacArthur is probably close to that of most Northern NGOs, since they tend to invest in similar activities with a heavy emphasis on democracy and civil society, capacity-building and institutional development, and the creation of international knowledge and advocacy networks around key issues. Evaluations of these efforts show a pattern of mixed success but some good results in, for example, promoting greater transparency and accountability in government budgeting and aid allocations, expanding public participation in the processes and institutions of decentralized local governance, and stronger advocacy and policy capacities among NGOs and other civil society groups.<sup>4</sup>

Philanthrocapitalism, on the other hand, tends to focus on economic interventions, service delivery, and short-term material outputs, marking a distinct break with the approach of these older foundations in at least two ways.

First, it places more emphasis on intervention (and even control) by the donor as a critical factor in success, a lesson learned from venture capital investing. This obviously removes some of the uncertainty involved in more traditional partnerships but can also lead to a top-down approach to planning and evaluation, the use of misleading metrics created to satisfy donor requirements, and an impatience for results, especially among those who have made – and intend to spend – their fortunes within their own lifetimes. As a result, some foundations are in danger of becoming “planners not searchers” in Bill Easterly’s famous phrase (Easterly 2007).

Second, philanthrocapitalism makes much more use of the market as a vehicle for reducing poverty, protecting the environment, and achieving social objectives.

Stronger capacities and institutions, new power relations, and different values may be a by-product of market-based interventions, but they are not the primary objective of this form of philanthropic investment.

Adam Waldman, founder and president of the Endeavor Group, a Washington-based philanthropic consultancy, says the hallmarks of the new philanthropy are “an entrepreneurial results-oriented framework, leverage, personal engagement, and impatience” (Foster 2007). As befits an approach that emerged from the world of venture capital and Silicon Valley start-ups, ‘strategy’ is dominated by aggressive revenue generation efforts to promote a certain vision of financial sustainability through the market, and an emphasis on rapid ‘scaling-up’ to meet potential demand; and ‘leverage’ comes through investing in a wider range of vehicles to achieve their goals, including for-profits and even subsidiaries of themselves. Google.org and the Omidyar Network are especially prominent here.

Although it is often left unsaid, the subtext of venture philanthropy is a widespread dissatisfaction with the methods and achievements of the older foundations, which are seen (at least in private) as ‘analog players in a digital world’. These older foundations certainly have serious shortcomings (timidity, lack of focus, poor learning, weak accountability, and high transaction costs to name just five), but it is not clear that philanthrocapitalism escapes the same criticisms, and it is interesting to note that some of the new foundations like Gates, Google and Omidyar are already moving towards the kinds of investments in institution building, policy and advocacy capacities, and governance that older foundations have pursued for decades (with, it must be said, varying degrees of success).<sup>5</sup> Gates, for example, is investing in the International Budget Project to help civil society groups track aid expenditures on the ground (especially in the health sector), while both Google.Org and parts of the Omidyar Network are making grants to NGOs to monitor local government service delivery and strengthen public-sector accountability. These moves are a natural part of the ‘learning curve’ of new donors, who tend to begin with technological and/or market-based solutions to development problems and then move on to the deeper issues of social and institutional change when they encounter problems in achieving their objectives.

This conclusion is borne out by the limited amount of evidence we have about the developmental impact of the new philanthropy. Take, for example, the large investments in global health that the Gates Foundation is making, along with the Clinton Global Initiative and others. Although no vaccines have yet been found against HIV/AIDS or malaria, their large-scale investments in subsidized commercial research and testing guarantees a reduction in drug prices in the future, and innovation in delivery systems on the ground (including free distribution) would appear to be an effective and legitimate use of private foreign aid. The same might be true for environmental goods and services in the future, since there is clearly

money to be made from solar-powered water pumps and the like at a price point that is affordable to the poor (but not the poorest). However, doubts have already been expressed about the effects of these investments on the strength and sustainability of national health systems and capacities. A recent report from the Center for Global Development in Washington DC (2008) concluded that “the big HIV donors are creating AIDS-specific systems that compete for health workers and administrative talent, share the same inadequate infrastructure, and further complicate already complex flows of information”, a well-known problem in the foreign aid community but one that some of the new foundations appear to have downgraded. Similar criticisms have been made about the ‘Alliance for a new Green Revolution in Africa’ (AGRA) supported by the Gates and Rockefeller Foundations, because of the high water and fertilizer requirements of ‘wonder seeds’ and because investments in land rights, roads, credit and marketing have not been undertaken. AGRA is also tied into the CGIAR system, which has done little to build local and national agricultural research capacities over the last 25 years (Dugger 2007; Edwards 2008b).

The other high-profile focus of philanthrocapitalism is micro-finance. Although few rigorous evaluations of the impact of micro-finance exist, it is clear that increasing poor people’s access to savings, credit, and other financial services is a good thing – and in one or two countries it has already reached a significant level (21 million ‘clients’ and 105 million ‘family members’ in Bangladesh alone: Pollin 2007). Micro-finance increases people’s resilience and reduces their need to sell precious assets in times of trouble, but it doesn’t move them out of poverty on its own. That requires other and more complicated measures to develop a sustainable livelihood and create more well-paying jobs through large-scale, labour-intensive agro-industrialization; address the deeper issues of disempowerment that keep certain people poor – land rights, for example, or patriarchal social structures; and get governments to redistribute resources on the necessary scale through health, social welfare, public works and education.<sup>6</sup> Micro-finance institutions also need continued subsidies to reach the very poor, questioning the philanthrocapitalist assumption that market methods, social goals and financial sustainability are mutually supportive (Pollinger et al. 2007). There is some evidence that micro-finance has a positive impact on the factors that lead to social transformation – women’s empowerment, for example, and building small group skills – but these advances have not translated into significant shifts in social and political dynamics, Bangladesh included.

The success of micro-finance has spurred the use of similar techniques for other goods and services, like cell-phones and insurance, and is linked to C.K. Prahalad’s famous ‘bottom-of-the-pyramid’ (BOP) theory which promises profits, poverty eradication and empowerment all in a seamless package. Prahalad (2006) claims that huge, untapped markets lie at the base of the global income distribution which



– when supplied with goods the poor can buy and sell – will lift them out of poverty and also transform their lives socially and politically. But research by Aneel Karnani (2007) and others shows that many of the case studies used in support of the BOP paradigm involve consumers who are not poor at all, and that the products and services that are sold by 'micro-entrepreneurs' have less market penetration and productivity-enhancing potential than is claimed, so they fail to generate sustainable incomes.<sup>7</sup> An evaluation of Project Shakti, a public-private partnership promoted by Hindustan Lever (HLL) in India, reveals a similar story. Project Shakti integrates low-income women into the HLL marketing chain, selling goods like shampoo and detergent "to boost their incomes and their confidence". However, a recent independent evaluation found no evidence that the project empowers women or promotes community action, as opposed to making them 'saleswomen for HLL', often at considerable cost to themselves since there are cheaper brands available; returns on investment are therefore low, and the work is very hard (Tandon and Thekkudan 2007).

Obviously, this evidence is not conclusive, but it does suggest that while it is perfectly possible to use the market to extend access to useful goods and services, few of these efforts have any substantial, long-term, broad-based impact on social and political structures. The reason is that systemic change involves building, changing and sustaining the capacities and institutions that NGOs and others have long recognized as crucial to development, whether articulated through social movements, formal politics or the State. These are avenues that philanthrocapitalism generally ignores, yet the oft-repeated equation of 'technology plus science plus the market brings results' is unlikely to be a reliable formula for successful development. Although some claim that these new modes of operation break down traditional donor-recipient relationships by 'empowering' the poor in markets and giving them more choice through increased personal assets and incomes (an important argument in principle), such broad-based economic gains have not yet been achieved, even by micro-finance, and the predicted spillover effects on collective action, network-building and institutional development have not materialized. Instead, philanthrocapitalism may divert energy and resources away from attempts to lever structural change.

The best foreign aid does deliver tangible outputs like jobs, health care and houses, but more importantly it helps to change the social and political dynamics of places in ways that enable whole communities to share in the fruits of innovation and success. Key to these successes has been the determination to change power relations and the ownership of assets, and put poor and other marginalized people firmly in the driving seat, and that's not an accident. Throughout history, it has been the actions of those most affected by injustice that have transformed systems and institutions. The new philanthropy has yet to come to terms with these basic lessons of development history. This does not mean that it is damaging or redun-

dant, simply that it has a particular role to play in areas where its strengths can be harnessed and its weaknesses are less exposed, particularly in creating and expanding markets for socially and environmentally useful goods and services. Perhaps the key issue is how to strengthen the social and political impact of the new philanthropy while reducing the potential negative effects it might have on local capacities and institutions, as in the case of HIV/AIDS and health systems cited above. On this question, as on many others, philanthrocapitalism has much to learn from more seasoned practitioners of foreign aid. In the long term, this movement will turn out to be complementary to, and not a substitute for, other private and public initiatives among traditional foundations, development NGOs, and governments.

#### 10.4 COMMON PROBLEMS: IMPACT AND ACCOUNTABILITY

Despite these differences, all private initiatives suffer from two central weaknesses that make it much more difficult to develop effective proposals for policy and practice in support of private aid: poor impact analysis and weak accountability. It is difficult to know what to encourage or discourage, or where to focus scarce aid resources, with so little comparative impact analysis and so little pressure to produce it because accountability is under-developed. This is particularly true of philanthropy, since development NGOs have been facing these criticisms for many years. Despite taking action to address them, they show no sign of disappearing. As a recent article in *Foreign Policy* puts it, NGOs are “increasingly taking over key state functions, providing for the health, safety and welfare of citizens. These private actors have become the ‘new colonialists’ of the 21<sup>st</sup> century” (Cohen et al. 2008: 48), an unoriginal observation that ignores the broadening array of experiments designed to strengthen NGO accountability mechanisms that have emerged over the last five years (Jordan and Van Tuijl 2006).

That the same spotlight is now being turned on foundations is a welcome development, though (at least for those that are independently endowed) there is less incentive for them to respond proactively than among development NGOs. This is because the need to raise funds from public or private donors creates at least some pressure to be accountable for the achievements and reputation of the organization. By contrast, the only source of such pressure for foundations (apart from satisfying the minimal legal requirements of the relevant tax authorities) comes from their staff and boards of trustees, and this is rarely enough to bring about serious reflection or evaluation. As a result, it is difficult to know what impact foundations are having on development and impossible to say whether philanthrocapitalism is eroding the slow, long-term, ‘subterranean’ work of institutional development and relationship-building that is one of the keys to development success, yet which fits uneasily into the technocratic, short-term, metric-driven and control-oriented world of the new philanthropy. The reluctance of the new

foundations to invest in independent grant-making entities in the global South such as TrustAfrica is certainly dispiriting, though the Omidyar Network has recently made a grant, and the Gates Foundation is considering making a similar investment (Alliance 2008).

The gradual privatization of foreign aid (if current trends continue) may lead to the privatization of foreign policy and international policy-making more broadly, something that would have both benefits and costs. Some of these costs stem from less democratic processes of policy-making and accountability which are part and parcel of philanthropy, new and old. As a concrete example, is it desirable that a foundation governed by a board of three family members is able to play an influential role in setting global health policy? That was the accusation made recently by an official from the World Health Organization who complained that it was no longer possible to find independent reviewers for health research proposals since they were all on the payroll of the Gates Foundation (International Herald Tribune 2008). Sour grapes perhaps, but he has a point. Philanthropy has always been an expression of individual desires and passions, and it is assumed that those desires are supportive of more-broadly shared visions of the ends and means of development and social change. If they are not, societies may be in trouble as philanthropy continues to expand.

## 10.5 CONCLUSIONS AND IMPLICATIONS FOR DEVELOPMENT POLICY

Philanthropy is, by definition, private money, but how it is spent is a matter of public interest, for two reasons. First because, especially as it grows, its impact will touch the lives of increasing numbers of people across the world, and second, because tax breaks are given on the assumption that resources will be used to promote the public good as or more effectively than if the same resources had been available to government. Therefore, it is perfectly legitimate to subject these questions to greater public debate, and that debate must be informed by more rigorous information and evidence, in place of the anecdotes and rather superficial and self-serving reports that dominate the sector at present. Unless ways can be found to strengthen analysis and learning, it will not be possible to get at the issues of impact that should be driving all philanthropic investment decisions, yet a recent survey by the Urban Institute and Grantmakers for Effective Organizations in the United States found that only 43 per cent of US foundations undertook any formal evaluation of the grants they made (Marten and Witte 2008: 21). Official aid agencies can help here by co-sponsoring essential research and insisting that it is released into the public sphere.

Donor governments (in whose countries most foundations and international NGOs are based) also need to encourage greater transparency and stronger accountability mechanisms without resorting to overly intrusive regulations and more

bureaucracy of the kind that was revealed in a study of the Dutch co-financing program in 2006, where each applicant was required to produce “two kilograms of paper detailing what the results of their work would be in 2010” (Bebbington et al. 2008: 27). These problems have been exacerbated by the securitization of foreign aid against the background of the ‘war on terror’, which has increased the weight and complexity of the legal requirements for funding and grant-making among both NGOs and foundations (Sidel 2007; Fowler 2008). Much better alternatives exist, such as the ‘grantee feedback surveys’ administered by the Center for Effective Philanthropy in the US, the public dissemination of evaluation results via NGO and foundation websites, and proposals drawn up for a philanthropic ‘ombudsman’ who would provide independent oversight of cases where foundations and their grantees disagreed over results and reports – thus helping to remove one of the most powerful disincentives to learning among foundations, namely the fear of retribution if funders are criticized by the recipients of foreign aid (Fleishman 2007; Edwards 2008).

Finally, a better balance needs to be struck between the freedom and flexibility to operate unhindered by government direction (which is one of the preconditions for successful private initiatives, whether by foundations or NGOs) and the benefits of aid coherence as expressed in the Paris Declaration on Aid Effectiveness. Forcing foundations and NGOs to sign up to the Paris Declaration as full members on the same basis as governments is probably too much to ask for, and would no doubt be strongly opposed. But lighter forms of co-ordination exist, built around peer pressure, informal information exchange, and country- or sector-based discussion mechanisms such as the Consultative Group to Assist the Poorest (CGAP). Given the increasing influence of a small number of new foundations on global health, agriculture and micro-finance policy, this is probably the minimum that should be required. Such measures would not reduce the ability of NGOs and foundations to pursue their mission in the way they feel is most appropriate, but they would help to improve the transparency and accountability of private aid and drive both impact and innovation over time.

Philanthrocapitalism provides important additional resources and ideas for international development, and a welcome challenge to accepted ways of providing development assistance among NGOs and foundations. However, both its potential impact and the depth of its innovation have been oversold in the current wave of publicity that surrounds the Clinton Global Initiative, the Gates Foundation and others. Over time, and because the same lessons and constraints tend to operate on all development-assistance providers, philanthrocapitalism will likely come to resemble other forms of private aid, integrating into the international system rather than replacing or displacing other actors, and that will be a cause for celebration.

## NOTES

- 1 Aid from and through Northern NGOs plus international giving by US foundations plus grants for development from European foundations. Data from Reality of Aid 2008, United Nations and GPPI.
- 2 See Riddell (2007), Chang (2007), Rodrik (2007), Easterly (2007) and Collier (2008).
- 3 See Riddell (2007), Edwards and Hulme (1992 and 1995), Hulme and Edwards (1997), Lewis and Wallace (2000), Edwards and Gaventa (2000), Fowler (2000) and Bebbington et al. (2008, which includes a summary by Irene Guijt for the Dutch co-financing evaluation).
- 4 See Reardon (2007), Fleishman (2007), Frumkin (2007) and Dowie (2002)
- 5 Examples include Gates's recent grant of \$ 18 million to the International Budget Project in Washington DC, which promotes citizen participation in the public budget process across the world; and the inclusion of support for "improving the flow of information to hold governments accountable in community services" in Google.org's first set of five initiatives. See "Google Offers a Map for Its Philanthropy", by Harriet Rubin, *New York Times*, January 18<sup>th</sup>, 2008.
- 6 See also F. Abed and I. Matin (2007) "Beyond Lending: how micro-finance creates new forms of capital to fight poverty", *Innovations* Volume 2 (1/2), pp. 3-18.
- 7 See 'Is there really a fortune at the bottom of the pyramid?' by M. Baker, *mallen-baker.net*, September 3<sup>rd</sup> 2006; and 'BOP Too Good to Be True?' by A.Khosla, *Alliance* 12 (2), June 2007.

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## 11 THE TROUBLE WITH PARTICIPATION: ASSESSING THE NEW AID PARADIGM

*Nadia Molenaers and Robrecht Renard*

### 11.1 PARTICIPATION: ON THE MAIN MENU OR JUST A SIDE DISH?

Around the turn of the millennium, donors made the participation of civil society in the formulation of Poverty Reduction Strategies (PRSPs) a formal condition for Enhanced HIPC (Highly Indebted Poor Countries) debt relief. Soon PRSPs became a cornerstone of a new aid approach. Many critics in the NGO (non-governmental organizations) community and beyond reacted enthusiastically to what was perceived as a major breakthrough in the thinking at the World Bank and the IMF (International Monetary Fund). Today the fizz seems to have gone out of the bottle. Governments never really warmed to the idea, and donors discovered they had stumbled into a political minefield. Critics are disappointed about the shallow nature of the participation that was achieved. We argue that the flawed results are symptoms of deeper lying problems.

The way civil society participation is included in the new aid approach contains three weaknesses. First of all, at a conceptual level, there is an implicit expectation about civil society that is far too optimistic and draws on an ‘angelical’ perspective of civil society. This ignores the fact that civil society is by its very nature heterogeneous, organized around the interests and common perceptions of participants, with collective self-interest playing a major role. Moreover, the poorest are the most difficult to organize. As a consequence, a vigorous civil society is not automatically a pro-development force, let alone a pro-poor force. Second, the understanding of the political process, and of state-society interaction in particular, is equally ‘angelical’. Its assumptions that the state holds a sufficiently neutral stand to acquiesce in a pro-poor strategy, that the political arena is open, and that power is distributed in such a way that the poor can weigh on political outcomes do not often match reality. The role assigned to civil society in the new aid approach was unrealistic from the beginning. It failed to raise the more stingy but relevant questions: How pro-poor is the political elite? Who is pro-poor in civil society? How much leverage do these agents have? Is the state open for civil society input? Third, it is odd that the same donors who had learned the bitter lesson that conditionalities without ownership just do not work, and who proclaimed that from now on it would be different, made the same mistake again when it came to civil society participation. Government ownership was too easily assumed, and this led to the new aid approach lacking selectivity and – against its own prescriptions – imposing blueprints on what sort of participation was in order. Sensing that most governments would not accept the transformative civil society participation that

the new aid approach heralded, donors kept the conditionality but did not monitor it in any serious manner, and let it become a caricature of itself.

If it is accepted that civil society participation was not really successful, what is the alternative? This chapter argues for a more contextual and political approach to participation. Under the new aid approach there is no escaping difficult questions about politics, not so much of individual politicians as about how pro-development and pro-poor political institutions are. It is legitimate and appropriate for donors to be concerned about this, and to press for more accountability towards citizens and for political space for debate and dissent. There are many ways in which civil society organizations can play a role here, and donors should be proactive and supportive of civil society. But there are no blueprints, and the present bland participation condition, with its emphasis on a technocratic rather than political process and its complete lack of bite, is not helpful.

The main message of this chapter is that participation should not figure on the main menu. Donors are right to order it as a side dish, but hopefully for the right reasons: rethinking participation in terms of how and when it can be useful in advancing the poverty reduction agenda. To achieve this, aid agencies should act technocratically, but think politically, and sometimes even act politically. If donors fail to recognize the fundamentally political nature of development cooperation, they are in for a rough ride, because political and institutional engineering lies at the heart of the new aid approach, and there is no way of escaping difficult political issues.

## **11.2 WHAT THE NEW AID APPROACH SETS OUT TO DO: SOME BACKGROUND ON THE FAILURE OF AID**

During the 1990s the donor community began to acknowledge publicly that both projects and structural adjustment policies had been unsuccessful in bringing about the expected turnaround in aid-dependent low-income countries (World Bank 1998). In the years since, this conclusion has become the new mantra of the aid industry.

One set of explanations focuses on failures on the side of donors (e.g. Stiglitz 2002; Sachs 2005; Easterly 2006; Birdsall 2008). These donor failures are massive and well known, and they interact with some of the issues we are about to discuss. But equally important, and the starting point of our analysis, are the explanations which lay the blame with recipient countries and in particular with their governments. This line of reasoning argues that aid only thrives in favourable domestic policy environments, where political leaders are willing (ownership) and able (capacity) to promote development, and that many aid-dependent countries do not have those. The observed lack of government commitment and capacity, in

turn, is a structural phenomenon that is explained by the prevalence of particular political processes that – whatever their diverse roots in colonialism, governance structures in traditional societies, historical patterns of economic development, or other factors – have become deeply engrained in the countries concerned. This problem cannot be fixed by just throwing aid at the country. On the contrary, this may actually exacerbate the problem.

Moral exhortation of the political class is equally naive. This line of reasoning is consonant with a vast literature from political science (e.g. Sandbrook 1986; Bayart 1993) and institutional economics (e.g. Bates 1981; Acemoglu and Robinson 2006; Rodrik 2007), which tries to understand how policy regimes that constitute an obvious impediment to economic and social development can become so deeply entrenched. And indeed, recent history seems to confirm their resilience: in many low-income countries, greedy, corrupt and anti-development political elites have survived both the post-Cold War drive towards Western-style democratic elections and well-intentioned reform efforts by the donor community supported by decades of foreign aid and technical assistance.

If pro-development and pro-poor policy reform cannot be imposed from the outside on a reluctant government, it must by necessity come from the inside. In donor parlance, the government must be fully committed and have full ‘ownership’ over a development strategy of its own making. Another lesson that donors drew from the failures of the past is that there are no standard recipes for success, and that successful policy reforms will be uniquely tailored to local circumstances and often unorthodox. In order to allow such national ownership to flourish, donors must exercise good judgment and be selective in where they provide generous structural aid, but once that is decided, aid should be mainly ‘aligned’ to national priority setting and to national mechanisms of implementation and control.

But is this not a leap in the dark? If most aid-dependent and low-income countries have poor governance track records, then how on earth can a transfer of control over aid resources to these governments ever lead to success when at the same time traditional donor oversight mechanisms are thrown overboard?

To this challenge the architects of the new aid approach have tried to provide an answer. A centrepiece in the new aid architecture is a remodeled ‘policy dialogue’, which donors no longer use to unilaterally impose conditions but which is now the vehicle for strengthening internal dynamics of change, by locking in reforms that are nationally designed and supported. As in the past, financial support and capacity building are major incentives. The new aid approach also tries to exert indirect pressure on recipient political systems by fostering national mechanisms of downward accountability of the government towards its citizens. It is here that civil society participation fits into the picture. First of all, the aid architects expect

from the participation of civil society at the national level that a broader based ownership of the development strategy may be achieved. Second, participation will foster downward accountability of the government towards its citizens, replacing the elusive upward accountability that even the mighty Washington-based IFIs (International Financial Institutions) had been unable to impose. Broad-based ownership and downward accountability will also contribute to the most important goal of all: pro-poor development effectiveness. Civil society organizations, often somewhat loosely identified with international development NGOs and their local partners, are perceived as strong lobbies, capably defending the interests of the poor. Important to mention is also that the introduction of participation in the formulation of the PRSP stirred up a debate which was long overdue, namely the role of civil society in the larger society in developing countries. Whereas civil society during the 1980s and 1990s was mostly a channel for delivering project-level aid, often in social service delivery, and acted as the replacement of a state unable or unwilling to perform these functions, the new aid approach expects civil society to play a watchdog role. As such, the new aid approach marks a profound shift in the role for civil society: from the micro level (local and projects) to the macro level (national and policies) (Cornwall and Gaventa 2001).

In formal terms, civil society participation as a conditionality was linked to debt relief under the Enhanced HIPC Initiative, decided in November 1999 and implemented in the first years of the new century. A full PRSP was a prerequisite for debt relief, and civil society participation was one of the points on which a PRSP was assessed. The World Bank and IMF Joint Staff Assessments (JSA) were crucial documents in the endorsement of a PRSP by the donor community, and they commented on the quality of civil society participation. After 2004 the role of the above-mentioned documents was tuned down, and they were replaced by Joint Staff Assessment Notes (JSAN).

As time went by, civil society continued to be mentioned as a suitable candidate for participation in the policy dialogue with the government, but often in one breath with other actors such as the private for-profit sector. The conditionality element was also watered down in new mechanisms. The Paris Declaration for instance refers to civil society participation where it says that partner countries commit to encourage “the participation of civil society and the private sector” in co-coordinating aid. In the Progress Report made for the 2008 Accra High Level Meeting, it is mentioned that since 2005 “a more democratic sense of ownership has emerged, acknowledging the crucial role of parliaments, civil society and the wider public as important ‘owners’ of development strategies and policies” (OECD/DAC 2008: 36-37). Participation does not figure in the indicators for monitoring the Paris Declaration. And in the World Bank’s parallel effort to monitor development strategies, no scores are provided for the participation of national

stakeholders in the strategy formulation and revision either. But it is mentioned that “the basis for doing so (for stakeholders across the executive and in civil society and parliaments) also exists in the aid effectiveness profiles should there be future demand for such scoring within the international community” (World Bank 2007: A16). In the important World Bank Country Policy Institutional Assessment (CPIA) indicators, civil society’s access to information on public affairs is one element in judging the transparency, accountability and corruption in the public sector. But at no other point in this comprehensive and detailed grading system does civil society participation appear as an important criterion.

### 11.3 FLAWED RESULTS

The idea that participation of the poor can foster success in development interventions has been around for quite some time. It is one of the major contributions of NGOs to the debate on development, and one that predates the new aid approach by a long stretch. Grassroot-level practices of participation were mainstreamed in the interventions of many bilateral and multilateral donors. Research suggested that participation increases the success of development projects (Isham et al. 1995). The same donors also looked at civil society organizations as vehicles for service delivery. Civil society was pictured as flexible, cost-efficient, close to the poor, able to work on empowerment, less corrupt and more transparent than state agencies (Edwards and Hulme 1996: 6; Van Rooy 1998: 39; Hudock 1999: 8). It was thought that development NGOs in particular were innovative, quick to reach their target groups and successful in delivering results, especially in service delivery (Fowler 2000: 7). In recent years, the limits of participation have increasingly come into focus, among other things because of inequality and local elite capture (e.g. Cleaver 1999; Platteau 2004). Some have even talked about participation as having become a somewhat unhelpful slogan and a ‘tyranny’ (Cook and Kothari 2001).

This lively debate on participation touches on what we are talking about in this chapter, but the major innovation of the new aid approach is that participation is being promoted at the macro level. Not that this dimension was completely absent in the past. It has been believed for a long time that the participative and bottom-up approach promoted by NGOs would produce social capital and empower the poor and the vulnerable. In the process, civil society would foster democracy because it constitutes a countervailing power, provides checks and balances on state power, resists authoritarian tendencies and, last but not least, socializes citizens into a democratic culture (Fowler 2000: 7). But it mostly remained a bottom-up approach. In the new aid approach, a new dimension was added, in the form of donor-imposed participation by civil society at the very macro level.

So what have been the results? Macro participation under the new aid approach has only been around for about ten years, and the evidence is not very systematic.

The messages in the literature are fairly convergent, however: the results are at best uneven. They are mixed with respect to the different stages in the policy-making cycle: formulation, decision-making, implementation, evaluation. More concretely, the results in the first stage of the policy cycle have been more impressive than in further stages. It is generally recognized that donor-driven civil society participation has had some positive effects at the formulation stage. In many low-income countries the new aid approach, in particular through the PRSP, boosted more and better poverty diagnostics. This substantially increased the quality of information on poverty. Quite a lot of these poverty diagnostics were carried out by NGOs – particularly international NGOs – using participatory approaches, which deepened the understanding of the multidimensional character of poverty (World Bank 2002: 3; CIDSE 2004; Driscoll and Evans 2004: 3; Thornton and Cox 2005: 10). Note that in this particular context participation has to be understood as drawing on the knowledge of the poor through consultative processes, which is very different from civil society representatives acting as watchdogs and requesting accountability.

There were also successes at the macro level. In many countries room was created for civil society representatives to debate social and economic policies with the government, leading to a level and intensity of interaction that, however imperfect and limited, had not existed before (Curran 2005: 5; World Bank/IMF 2005: 26). The same can be said about the interactions between civil society and donors, and between civil society organizations themselves. The formation of civil society networks, umbrella organizations, strategic alliances and all kinds of policy platforms are all mentioned as important gains (Eberlei 2007a: 5). However, these gains also have a downside. Many studies have pointed to a selection bias in the stakeholders invited to participate. Urban-based, and in particular capital-based, middle-class, externally funded NGOs tend to dominate the negotiation spaces, while the poor and vulnerable are not really visible (World Bank 2002: 10). There is only very limited involvement of the private sector and mass organizations (Driscoll and Evans 2005: 13). Governments studiously avoid the involvement of the more dissident voices, leading to another, pro-government selection bias in who gets invited (Eberlei 2007; Siebold 2007).

Participation is more problematic in further stages of the policy cycle. Most strategic agenda-setting takes place behind closed doors at the government and donor levels, and there is no participation to speak of in actual decision-making (McGee and Norton 2000; Lazarus 2008). The fact is often cited that there are very few or no changes in macroeconomic policies. Yet these policies have typically been heavily contested by civil society representatives (Lazarus 2008: 1207; Dijkstra 2005). And few poverty strategies pay more than lip service to the dimension of gender (McGee et al. 2002; Zuckerman and Garrett 2003) or ethnic minorities and indigenous groups. This shows that PRSPs pay little attention to the underlying

structural causes of poverty and social exclusion (Tomei 2005). In the end, participation seems to have had little impact on poverty indicators so far. Some critical civil society organizations refer to the PRSP as “poverty reduction by access to services” (Curran 2004: 6). Some observers believe that some of the increase in social spending can be attributed to civil society participation, but the causal link is difficult to prove. Increased social spending is for instance also explained by the pressure exercised by the MDGs (Millennium Development Goals) and the subsequent donor push for more attention to the social sectors (Driscoll and Evans 2005: 12). Finally, participation in monitoring and evaluation (M&E) is as weak as most of the M&E systems themselves (Eberlei 2007; Driscoll and Evans 2005: 13). In the light of this glaring gap between principles and practice, even the World Bank (2004: 13) showed sympathy with the level of disappointment in civil society.

Results have also been mixed across countries. Here a paradox seems to be confirmed that has plagued the aid industry for decades, namely that many features of aid work best where they are least needed. Applied to participation: in countries where there is a pre-existing national project for poverty reduction and/or already institutionalized forms of participation, the new aid approach is relatively successful, whereas in those countries where this is not the case, it rarely makes a difference (Lazarus 2008). Driscoll and Evans (2005) similarly state that PRSP processes most clearly succeed where they tend to coincide with a pre-existing national project for poverty reduction articulated by political leaders and widely shared by citizens.

We argue that such poor results are not surprising. Participation at the national policy level, as promoted by donors, suffers from three major flaws. First the concept of civil society that is used is unrealistic and leads to excessive expectations. Second, donors promote a state-society interaction model that may not be appropriate in early stages of the development process. Third, there is a lack of government ownership for participation at the macro level that donor pushing cannot overcome. We tackle these three topics in turn.

#### 11.4 AN OVERLY OPTIMISTIC NOTION OF CIVIL SOCIETY

Two currents of thought on civil society may be contrasted, one optimistic, one skeptical. Donor thinking is closest to the ‘optimistic’ interpretation that links civil society to the production of ‘good things’ in terms of development and democracy. This intellectual tradition, in which civil society is pictured as something fluffy and warm, something you can snuggle up to, can be traced back to De Tocqueville who saw civil society as the associational realm that protects individual citizens from ‘the tyranny of the majority’, and that promotes the interests of individuals regardless of their socio-economic position (Carrothers 1999-2000). Putnam (1993) pushed this argument further by ascribing to civil society the capacity to produce the social capital that to a fairly large extent determines the

political and economic performance of the state. His ideas were particularly influential at the time the new aid approach was being engineered.

In contrast, the 'skeptical' perspective defines civil society, in its relation to the state, as organized self-interest. Individuals with shared interests join forces in order to pressure the state into responding to group-related demands. By this definition, civil society is made up of a patchwork of heterogeneous groups with diverging, often mutually conflicting group interests, and distrustful of each other (Hadenius and Ugglä 1996: 1622; Foley and Edwards 1996: 39; Boussard 2002: 159). This diversity is reflected in the different organizational forms associational life can take, ranging from labour unions, professional associations, ethnic associations, religious organizations, cultural organizations, neighbourhood militias, to informal community groups. From this perspective, organizations can or cannot be good for democracy and/or development, just like they can or cannot be good for inclusion, solidarity, equality, tolerance and cooperation. They pursue the particular interests of their members, but that may or may not be good for society as a whole. As Carrothers (1999, 2000) states, "civil society everywhere is a bewildering array of the good, the bad, and the outright bizarre".

In its endorsement of the optimistic approach, the new aid approach presumes that the interests of different sections of society can be readily reconciled and that civil society participation is an unmitigated good that will bring no harm (Cling et al. 2003:195). Besides the fact that this harmonic vision on society is quite unrealistic, this perspective serves the idea that the only possible relation between the state and society is one of cooperation and complementarity. These assumptions serve to bypass tricky ex-ante questions which do surge from the skeptical perspective: if civil society is heterogeneous, then to what extent is poverty reduction an interest around which people are organized? Which groups are representing pro-poor interests, how should they be involved, and how should groups that have conflicting interests be dealt with? All very political stuff of course, and something donors – and especially IFIs with no political mandate – generally find too hot to handle.

## 11.5 A BIASED VISION ON STATE-SOCIETY INTERACTIONS

Fukuyama (2004) has suggested that the ideal society most people dream about looks something like an idealized, postcard version of Denmark, with high levels of both economic welfare and human development, a vigorous civil society, an open and tolerant democratic culture, and advanced institutionalized levels of democratic functioning. This particular view of 'Denmark' as the ideal society is something that may well be shared mainly by people who happen to live in Western democracies and vote left of centre (or liberal in the American sense), but this is not problematic for our argument inasmuch as the people who concoct new aid approaches probably largely belong to this category. The real question, if we follow



Fukuyama, is not so much what particular long-term ideal thinkers in the donor community hold out for the countries they are assisting, for on that point some mythical 'Denmark' may well be the consensus, but much more how low-income countries can be reasonably thought to get there over the many decades that such a transition will take. Is the particular model of state-society interaction that donor-driven civil society participation is promoting a critical factor at this juncture in the long road of 'getting to Denmark'? The donors seem to say that it is a right ingredient in the development strategy for every low-income country. We disagree.

When we look at the good performers in terms of developmental outcomes, broad civil society participation is not a characteristic these countries share. More often than not, developmental states<sup>1</sup> are (semi-)authoritarian with very limited space to participate. This limited space is furthermore strictly managed by the state in order to achieve its growth and developmental objectives. The state is thus highly interventionist and able to enforce critical rules, rights, obligations and rents which enable rapid growth and social transformation. In order to do this, the state must enjoy the support of – or at least be free from resistance from – certain interests, powerful groups in society. Developmental states thus often selectively strengthen the more productive segments in society, while weakening those groups which hamper the developmental drive (Khan 2002: 15). State-society interaction in such contexts is often labeled as corporatist: certain groups are systematically favoured over others, and the state puts an effort into engineering a cooperative relationship with certain major interest groups (Brinkerhoff and Goldsmith 2003: 687).

Corporatism is an institutionalized form of cooperation, and it serves the purpose of maintaining stability, and facilitating and supporting the procedures of developing and implementing policies, even unpopular ones. Corporatism focuses primarily on economic policies, and most often three sectors of society – business, labour, and government – are involved in negotiations about questions of policy. Some countries have excluded the trade unions from this mechanism, however, in order to give the entrepreneurial class more leeway in developing their productivity. South Korea, for example, built its economic miracle on the back of a besieged labour sector. The corporatist model has proven to work in the past for many European societies in overcoming chronic political stability in situations of deep social cleavages. According to Wood and Harcourt (2000: 15) there is sufficient evidence that corporatist strategies can make for superior economic performance, if there is a shared notion of severe crisis on the level of state, private sector, trade unions, and if these involved partners have a sufficiently broad "social footprint".

The intellectual counterpart of corporatism is the pluralist organization. The basis here is competition: participation and policy influencing are about interest groups, powerful individuals, and political parties that compete for influence over policy

domains. Gaining the approval of state decision-makers is what is at stake (Brinkerhoff and Goldsmith 2003: 686). The pluralists assume that the government is a 'neutral' player, everyone is free to organize for political purposes, and the policy-making process is not monopolized by powerful political forces. On the contrary, power is widely distributed, and different centres of power keep one another in check (Dahl 1961). Policies thus emerge through negotiation, bargaining and conciliation among interest groups. The challenge for policymakers is to orchestrate political compromises which keep competing interests relatively satisfied with policy outcomes (Palumbo et al. 2004: 654). These compromises tend to generate policies which are moderate and acceptable to a wide array of policy stakeholders.

Although the USA probably comes closest to a pluralist model, pure models of pluralism and corporatism hardly exist in the present world. What can be observed are systems in which characteristics of both models are present to varying extents. Pluralist patterns have tended to be characterized by relatively fluid relations and lobbying (Bleiklie 2004: 375), and many NGOs see advantages in the nonexclusive style of participation associated with it (Brinkerhoff and Goldsmith 2003: 687). Corporatist patterns have been made up by more stable, regular and sometimes semi-permanent committees and other forms of consultation with actors who are considered legitimately affected parties (Bleiklie 2004: 375).

The participation advocated in the new aid approach strongly inclines toward the pluralist vision of what policy influencing is. Imposed without further ado, without taking the context or its political regime into account, it seems to assume that the political arena is open, that the associational landscape allows for sufficient pro-poor competition, that poor people and vulnerable groups have access to the political arena, that they will be able to voice their interests and influence the policy-making cycle, that the government has a neutral stand towards the different groups in society, and that the goal of poverty reduction is politically neutral.

A closer analysis of the very limited results of the participation processes suggests that the pluralist model and its assumptions might not suit the actual reality of a lot of low-income countries. If we take the PRSP countries in sub-Saharan Africa (where the bulk of PRSP countries are situated) and screen them on their 2006 status with regard to press freedom, reported on the Freedom House website, only 15 per cent of these countries is free, 40 per cent is partially free, while 45 per cent is not free at all. The large majority lack an open opportunity structure which ranks as the most important condition for pluralism to thrive. The pluralist way of thinking has furthermore been criticized on several accounts. The predominant argument has been that in reality political access and power are unevenly distributed in most societies, even in consolidated democratic ones. This inequality results from varying levels in education, economic resources, and political

constraints. As such, it is no surprise that poor people tend to be poorly organized (Putnam 1993). We also know that civil society in most low-income countries is very weak and mostly embryonic (Van De Walle 2005).

Responding to the criticism of pluralism, scholars developed the elitist theory, which acknowledges that financially privileged individuals and groups have more impact on policy-making than other groups (Lowi 1979). NGOs, often perceived as donor bred and fed, have access to many more donor resources than social movements, which is probably related to their access to politics at the national and international level. Interestingly, the NGO vibrancy in PRSP processes is in part also boosted by the pluralist set-up of the model. NGOs tend to thrive well in these fluidlike forms of policy influencing, whereas mass organizations often remain on the fringes of the participatory exercises because their organizational structure often does not allow for these quick, ad hoc kinds of policy influencing. This relative absence of more traditional, member-based organizations (like trade unions, peasant organizations, producer organizations) is considered problematic, especially because some of these organizations have strong links to the poor and, given their membership-based constitution, also enjoy more legitimacy (Driscoll and Evans 2005: 13). Lastly, the pluralist thinking is criticized on its assumption that government is neutral. Closer to reality is the idea that the state will always favour some groups over others, and when it is involved in conflict resolution processes, it often has interests of its own which it will defend (Schreiner 1994: 13).

The pluralist way of thinking that is incorporated in the new aid approach is thus somewhat naive in its assumptions. But this has the comfortable side-effect of circumventing some stingy political questions. If on the other hand participation is looked at through the lenses of corporatism and its underlying assumptions, some very delicate and highly political questions on the structure of society and the nature of the state have to be answered: how open is the political arena, how is power distributed in society, which interests are sitting around the table, how much social footprint do they have, and which interests are defended by the state. These questions are highly political, however, and thus probably too delicate for donors to deal with.

The above suggests that corporatism holds more potential for shaping state-society interactions in low-income countries. This would be a dangerous assumption, however. First of all, corporatism as such is not directly linked with pro-poorness. In order to produce state-society interaction patterns which hold potential for pro-poor development, something more is needed: pro-poor players with sufficient leverage (power) and in tune with a national development agenda.

What clearly comes out of the literature review is that pro-poor participation needs more than just opening up the input side of the policy cycle. Interventionist

steering, a clear focus on poverty-oriented inputs, and the willingness to strengthen certain groups is needed, even when this comes at the expense of other groups and interests. This turns a seemingly innocent condition (pro-poor participation) into a highly political issue. The choices that have to be made in favour of pro-poor outcomes entail winners and losers. This will not be welcomed by certain groups. The question is whether donors and governments are ready to make this pro-poor choice because it entails important political consequences. This is what brings us to the next question: do governments really accept the type of participation sponsored by donors?

## 11.6 A CONDITIONALITY WITHOUT OWNERSHIP

Civil society participation as a central feature of the new aid approach is not a suggestion that came from recipient governments. Talk to government officials off the record, and in most countries they will tell you that civil society participation is an imposed donor conditionality that carries only limited support. Governments hold consultations on their PRSP and include a description of this participation process in the final PRSP document because they are told to do so. They know that the PRSP is sent to Washington and assessed by the World Bank and the IMF. The participation process is not strictly evaluated or screened, apparently because the World Bank and IMF staffs are not allowed to make political assessments, but the Joint Staff Assessments and the Joint Staff Advisory Notes do refer to the participation process and comment on it.

Governments are avid students of official donor discourses and decision-making processes, and they know exactly how far they can go. They know that participation is presented as a crucial component of the new approach, and they know the references that abound in donor documents (World Bank 2004, 2005; IMF 2004; Global Monitoring Report 2006). The PRSP gives them some freedom to develop their own strategy, but the process, including civil society participation, is not something they can get away from. As we have argued before, all the donor talk about ownership never seems to extend to the aid architecture itself. At that level, donors are quite happy to have the design table all to themselves. But governments accept this because they also know that donors do not look too closely when it comes to the quality of the participation process.

In the beginning, donors were very serious about civil society involvement. In the first place NGOs, and particularly INGOs (International Non-Governmental Organizations) had been criticizing donors fiercely on debt issues, on the ineffectiveness of donor conditionalities, on the need to respect national ownership, and on the fact that development efforts must include a wider range of stakeholders, especially those groups that are targeted and affected by projects, programmes and policies. Donors were particularly sensitive to these criticisms given the fact that

their aid efforts hadn't led to any substantial impact, hence the need to rethink aid was indeed of great urgency. Added to that, and we have referred to this before, donors already did have a lot of positive experiences with NGOs as aid deliverers and as designers and executors of projects and programmes. Their participative approaches, innovative ways of working at the local level with target groups, surely did serve the idea that involving these actors might benefit the purpose of poverty reduction strategies. The 1990s were furthermore marked by the popularity of the social capital concept (Putnam 1993). The booming literature which emphasized the positive effects of a strong civil society and vibrant associational life coincided with and strengthened the idea that involving civil society can produce nothing but good things.

This donor enthusiasm with the idea of civil society involvement was certainly not fully shared by recipient countries. If a fairly large number of low-income recipient countries are only partially free or not free at all, this implies that macro-level participation is per definition a problematic issue. (Semi-)authoritarian regimes are characterized by a very limited willingness to engage with civil society. Dissident voices are not appreciated. Even in those regimes where democratic elections are regularly held, the executive tends to hold a tight control over decision-making processes. Illustrations on how governments did this during the PRSP participation processes abound. Crucial information was not made available/accessible on time, or the documents are not available in a local language, invitations for meetings were sent too late, hence some organizations could not make it to the meetings. In a number of cases the government handpicked 'friendly organizations' (pro-government organizations) while critical or dissident groups were conveniently overlooked.

The agenda-setting for the participation process was typically dominated by the government, and politically sensitive issues banned from the agenda. Contributions from civil society were often not included in final policy documents. All the above problems have been identified by researchers evaluating PRSP participation processes (e.g. Eberlei 2001, 2007; Whaites 2000; McGee and Norton 2000; Painter 2002). The end result is that donors get (a semblance of) what they say they want, whereas the government tightly controls and manipulates the participative process and blocks off any road that they perceive as threatening. Interestingly enough, the donor push for the involvement of civil society has also led to a number of governments drawing up more restrictive civil society legislation after these PRSP participation processes. Examples include Tanzania, Mozambique, Zambia, Ethiopia and Uganda (see box 11.1). The space promoted by donors on the input side of the policy cycle has thus in some cases been quietly undone, raising serious doubts about the sustainability of an externally driven effort to give civil society more clout.

**Box 11.1 Room for participation undone by new and more restrictive NGO or CSO (civil society organization) bills**

In Uganda, the Non-Governmental Organizations Registration Amendment Bill, passed by Parliament in April 2006 requires all NGOs to get a new licence from the newly established NGO Board within the next three months. The new licence then has to be renewed after one year, renewed for a second time after two years, and again after five years. After that period the NGO Board will monitor NGOs and is able to revoke the licence of any NGO that fails to conform to its objectives, or with a constitution that is judged to be in “contravention of the law”. What worries the NGO community is the composition of the NGO Board. It won’t be judges deciding whether NGOs are operating within the law, but a set of political appointees from government ministries, and two representatives from the Internal and External Security Organizations. NGOs themselves are not represented on the NGO board at all (CONOB 2006; Freedom House 2008).

The Ethiopian government introduced a new draft NGO law in May 2008. Stakeholders have been requesting a new law that would modernize the 1960 Civil Code and Associations Regulations which govern the activities of NGOs in Ethiopia. The demand posed by NGOs and other groups was to have a comprehensive legislation that would facilitate the effective implementation of the right to associate (recognized by the 1994 Constitution) and the various international and regional human rights instruments ratified by Ethiopia. There have been a few forums for consultations between NGOs and the government on the draft, but these did not seem to bring about changes to the very critical provisions that can have the effect of seriously impairing the activities of independent NGOs in Ethiopia, particularly those that are engaged in promoting human rights, democracy, good governance, conflict resolution and peace-building (Human Rights Watch 2008).

Non-governmental organizations in Tanzania have reiterated their calls for the 2002 NGO Act to be amended, saying that it is restrictive and allows for too much governmental control. Legal and human rights organizations followed suit, saying that while the 2001 NGO Policy reflected the government’s recognition of NGOs as partners, the 2002 Act does not create a favourable environment within which these organizations can work. The NGO act is criticized for having serious flaws, including compulsory registration backed by criminal sanctions, lack of appeal to the courts, alignment of NGO activities with government plans, prohibition of national networks and coalitions of NGOs, and inconsistencies with other legislation (SADOC 2003).

In Zambia for many years a draft bill on NGO regulations has been hidden away in the Ministry of Justice. Suddenly, without much notice, it was presented to parliament on 10 July 2007. No one in the civil society, not the local NGOs nor the international, had been involved in the process. This legislation would have increased government controls over NGOs. Due to massive protests and considerable outcry, the bill was withdrawn (Freedom House 2008).

So government ownership of transformative civil society participation was and is quite problematic, but our criticism goes deeper. Participation is expected to

broaden ownership over a national development strategy. The question is whether the ownership concept can and should be stretched across different political arenas. We argue that it is unlikely, and even undesirable. The concept of broad-based ownership alludes to the idea of a national consensus, and this is unlikely because in real political life, formulating a development strategy is about making political choices and establishing clear priorities which very probably results in political tensions because some groups/segments in society will win, while others lose out. If a strategy consists of clear priorities, a full consensus (and countrywide ownership) is thus unlikely because of the diversity of interests found in society, and because poverty reduction needs a pro-poor choice which might go against the interests of certain vested interests. A full consensus is undesirable inasmuch as it would imply that all stakeholders see their 'claims' crystallized in one strategy, much like a 'wish list' or even a 'Christmas tree' strategy. The accommodation of a wide array of interests (groups in society, but also the interests of donors) goes at the expense of a coherent development strategy. A document which seemingly reflects a national consensus obscures the fact that there will be losers as well as winners, probably among the poor as well as between the poor and the non-poor, and this will do the poor no service (Maxwell 2003: 15).

**Box 11.2      Bolivia's wish list and Christmas tree PRSP**

In 2000 Bolivia was one of the first countries to go through the PRSP paces, and it was considered a best practice in terms of its participation process. The countrywide participation however contributed to the birth of a PRSP which looked like a wish list. Consultations held at the local level would emphasize the question of what people would do with the additional money coming in from debt relief. Municipalities asked for things like "repairing the statue of the local saint" or "redecorating the central plaza" as part of their poverty reduction plan (Molenaers and Renard 2003). Actually, a common criticism of Poverty Reduction Strategy Papers is that they represent a wish-list of policy measures which are poorly prioritized and too often de-linked from the availability of financial resources in the budget. In that sense Bolivia is but one illustration. Much the same goes for the Christmas tree effect. It made its appearance with efforts to accommodate criticisms of the drafts by adding new material, especially from donors. Donor agencies are sometimes unable to restrain themselves from insisting on the inclusion of priority topics, corresponding to their areas of activity or general concern.

From this point of view, broad-based ownership as a concept obscures the fact that in successful development, it is government ownership and commitment to developmental goals and poverty reduction that matter above all. Under the new aid approach, however, government commitment to poverty reduction is too often and too easily assumed by donors. Hossain and Moore (1999, 2002) point out that developing country elites more often than not are unsupportive of, or even hostile to, efforts of donors to promote pro-poor policies. Even where pro-

poor attitudes are formally espoused by the local elites, they are not matched by actual commitment. This difference between recipients and donors is not due to an uneven North-South division of individual morality, or because of ideological differences, but because bureaucratic and political cultures in different settings have been shaped by radically different historical forces. Many low-income, aid-dependent countries have political systems where getting and staying in power are relatively unrelated to developmental outcomes. To the extent that downward accountability plays a role, it mostly operates through a patronage system. Staying in power thus becomes a matter of bestowing sufficient rents to supporters, which often goes to the detriment of development (Vandewalle 2005; Booth 2005). The patronage system may extend to poor people and confer some material advantages to them, yet not in a way that structurally changes their position or empowers them (Brinkerhoff and Goldschmidt 2002). Given this incapacity of the poor to exert effective political pressure, elites feel no urgency in undertaking actions which change the status quo (Moore 2001).

On the other hand, governments are not homogeneous entities (Booth 2005: 5), nor is ownership or lack thereof a static characteristic. Government consists of multiple layers with a multitude of actors and departments. All these actors can have interests which can converge or collide. This provides an opportunity for donors to discover pockets of ownership which can be strengthened through flexible aid to the budget and policy dialogue, while hopefully weakening forces of resistance. At the same time, however, this complexity poses additional challenges: how many pockets of ownership and willingness to reform must there be, and where, and at which levels? And how can civil society best be involved in this construction?

It is clear that the new aid approach has an ambitious agenda, and that more political analysis is needed to at least understand the complex nature of most contexts, but this does not provide any straightforward answers on how to proceed in terms of action. The social sciences do not offer guidelines or recipes to engineer social change. And thus in practice, donors under the new aid approach often skip the difficult questions: development commitment is assumed to be present or under construction throughout a negotiation process, the fundamentally political assessment of 'change preparedness' is avoided, and they fast forward to the technocratic handling of solutions. Although donors acknowledge the problems of this 'techno-crazy', and there seems to be a consensus that donors must become better in political analysis, in practice it remains a far away ideal.<sup>2</sup>

The fact that ownership is so readily assumed has turned the PRSP approach – and by extension the participation conditionality – into the standard for engaging with nearly all low-income countries, not just a happy few where good governance conditions are fulfilled.



“In countries where the government is unwilling to embark on a PRSP, or where domestic institutions are too unstable, PRSP practices can be introduced gradually (...). However, preparing a PRSP should remain the preferred option, wherever there is a government willing and able to lead the process. There need be no other institutional prerequisites, as the PRS approach itself is the best means of developing the required institutional capacity” (Thornton and Cox 2005: i).

The more sober view is that given the way in which this new aid approach was designed, selectivity is a crucial ingredient for the approach to work. By now the approach is being promoted in all but a few ‘fragile states’, making abstraction of contexts and track records with regard to commitment and institutional capacity, ignoring the accumulated lessons drawn from aid failures of the past, and undermining its success. The odds of the new aid approach making a difference are thus smaller than expected, notwithstanding its many credentials.

## 11.7 WHEN LESS IS MORE

We have argued that the theoretical underpinnings for transformative civil society participation at the macro political level are not very solid. An overly optimistic view on civil society, coupled with a model of state-society interaction that over-stresses pluralism, is promoted as a universal solution. This approach is then imposed on reluctant governments, but not seriously monitored, allowing governments to reduce it to something that is toothless and meaningless. Not surprisingly, not much has come out of it. This is a pity because donors are right in being attentive to the political role of civil society, and they are also right in selectively supporting civil society actors that can mobilize and defend the interests of the poor. We advise donors to do less in order to achieve more.

Doing less means, for example, dropping the participation conditionality. Rather than being satisfied with a shallow caricature of participation, it is preferable to tune down conditions which can have perverse effects, or which will not be followed up and sanctioned. This does not mean, however, that the defence of civil society is not a laudable objective. To do this, it is best to start with the basics. Civil society cannot flourish if there are no civil liberties. Many aid recipients which are supported through the new aid approach do not score impressively on civil rights and political liberties. In these cases it does not make sense to insist on civil society participation at the political level, and sit back while the government harasses, sometimes viciously, the same civil society actors. It is therefore important that donors monitor whether there is freedom for civil society groups that are defending the interests of the poor to form and flourish. If not, this issue should be raised in the policy dialogue with the government, and it might be used as a selectivity criterion in deciding how much flexible money to grant. It will often be

unrealistic to insist that these groups are invited to the negotiating table with the government and allowed to sway the decision-making process, but it is worth pushing the government to assure that pro-poor groups have the right to exist and organize and raise their voice. Legislation on the registration of NGOs and other associations should be a particular source of attention. Also, the impunity with which governments in many countries harass civil society actors should no longer be condoned, but be made an issue at the negotiating table. In the same vein, transparency and accountability within the public sector should be stressed, even more so than in the past, so that civil society actors get access to relevant information.

Finally, for civil society to become an advocate of the poor, it is important that independent research institutes, universities, and think tanks are given the chance to flourish and contribute to the debate by offering technical expertise and rigorous analysis. Local NGOs and other pro-poor organizations should get more donor support, both financially and in terms of capacity development. Donors should increase their efforts in this direction, and do this in a much more harmonized fashion. They can do it directly, as many are starting to do, but also through international NGOs, Northern universities, trade unions and the like. Here they must heed the advice of acting technocratically, and thinking politically. For instance, we applaud the involvement of actors of civil society in technocratic discussions on, say, health, education, or agriculture, especially because such participation may well lead in the longer run to more political forms of policy influencing. To conclude, while dropping the condition that civil society should be recognized as a political actor and invited to the negotiating table, donors should make sure that a competent, pro-poor section of civil society gets the chance to flourish. If that is assured, the rest will come from the inside of the country, eventually.

Beyond that, donors may wish to get more political and get civil society involved in politics, and thus do more selectively and assiduously what they now do in a bland but completely ineffective manner. What it is that they should try to bargain for will depend on the context, and must be based on a good political analysis of local power relations, the political system and its evolution. Donors hate to hear this, but they are involved in some sort of institutional and political engineering when they try to create a policy space for civil society that would not be there without their intervention. That can work, but it can only work when the time is ripe, and when inside the country there is sufficient support for such a move. They must support things for which there is an internal dynamic. The political diagnostic tools that donors now increasingly use in public sector reform, for instance, are equally relevant when it comes to civil society participation. In fact, we have argued throughout that this is one of the most politically sensitive issues that donors have ever touched upon.

Pushing civil society at the expense of either the private sector or parliament needs to be avoided. Civil society is not a *deus ex machina* when governments are not development-oriented, nor can it solve problems for which broad political accountability is required. Nor is poverty reduction imaginable without vigorous economic growth and a vibrant private sector. To discern what can be done in the field of opening up the political space and of strengthening downward accountability through civil society organizations, a fine political judgment is needed. An overdose of naivety has led to de-politicized analysis and prescriptions. Avoiding the messy political nature of reality does not make it go away. Much like a boomerang, however hard you throw it away, it keeps coming back at you. All considered, it is not bad that participation is pushed off the main menu. As a side dish, chosen when appropriate, it might add texture and flavour to enrich the pro-poor menu. It is up to the donors to cook up context-specific intervention strategies, in which choices of action are rooted in rigorous analysis, not in that deep-seated fear which keeps them from recognizing the utterly important political role they can play.

## NOTES

- 1 Vietnam, China and the Asian Tigers serve as an example here. Only a very few countries (Botswana, Mauritius, India) were democratic before starting to perform in terms of growth and poverty reduction.
- 2 DFID (Department for International Development) for example initiated the 'drivers for change initiative' which contains a very strong politico-analytical component in which donors are urged to identify within a recipient government, but also in wider society, the genuine drivers of change in order to support these individuals, groups, departments, organizations and strengthen their position. Although the philosophy behind this initiative is highly appreciated in the wider donor community under the new aid approach, the way in which this tool is actually to be handled in the field is less straightforward.

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## 12 HOW CAN SUB-SAHARAN AFRICA TURN THE CHINA-INDIA THREAT INTO AN OPPORTUNITY?

*Raphael Kaplinsky*

### 12.1 INTRODUCTION<sup>1</sup>

The rise of China and India – the Asian Driver economies – is transforming the global economic, political and social landscape. The challenges posed by their rapid growth and global emergence are increasingly at the centre of strategic debates in the large OECD economies. But what of their impacts on other low-income economies in general, and sub-Saharan Africa (SSA) in particular? Perhaps these giant Asian economies, confronted with their own challenges in overcoming endemic and deeply rooted poverty, share common problems and have common interests with other low-income economies? Or, perhaps more darkly, the overlap of common interests is thin, and the rise of the Asian Driver economies poses more of a challenge than an opportunity for SSA and other low-income economies?

The prevailing view is one of mutual interest between China, India and SSA. This is reflected in the widely used categorization between North and South (sometimes ‘the global North’ and the ‘global South’ to reflect the fact that both China and India are in the northern hemisphere and Australia is in the southern hemisphere). This broad North-South categorization captures the divide between high- and low-income countries; it also broadly overlaps with industrial/non-industrial economic structures. It is widely accepted that the inter-group variations (North versus South) are greater than those within groups (within the North and within the South) and that each grouping has broadly common interests. Thus, there are believed to be an identifiable set of interests which Southern economies have in general, including in their relations with Northern economies.

In this chapter I shall argue that whatever the relevance of this bi-modal North-South configuration in the past, the rapid growth and increasing global presence of China and India challenge the belief in common South-South interests in a number of important dimensions. In particular, we will argue that SSA faces major new challenges to its future trajectories which arise directly as a consequence of the rapid growth of the Asian Drivers. Unless appropriate policy responses are adopted, the ‘dark side’ (that is, threat) may easily overwhelm the ‘light side’ (that is, opportunity).

The discussion begins in the next section by identifying four major conventional wisdoms underlying development trajectories in SSA. The subsequent section

briefly shows how these orthodoxies are affected by the rise of the Asian Drivers. Subsequently, I address the areas in which this new Asian challenge is synergistic for African economies, and contrast them with areas in which Asian Driver-SSA interests are in conflict. Then I conclude with a discussion of the broad policy implications for Africa in its evolving relations with the Asian Drivers.

## **12.2 DEVELOPMENT TRAJECTORIES FOR SUB-SAHARAN AFRICA – THREE ORTHODOXIES**

Amongst the range of development orthodoxies governing the policy agenda in SSA, four are both particularly important and heavily affected by the rapid rise and growing global presence of the Asian Driver economies.

### **AID, TRADE AND FOREIGN DIRECT INVESTMENT SHOULD BE SEPARATED**

Economies interact through a variety of different vectors. The most important of them with regard to low-income countries are the three vectors of trade, aid and foreign direct investment. In the colonial era they were fused, and the imperial powers' interests in Africa were closely coordinated. For example, in the immediate post-war period, British colonies were seen as providers of traded commodities for UK consumers, involving foreign direct investment from UK firms (for example, producing tea in Kenya) with infrastructure to support this trade provided by the UK Colonial Office (roads and ports to transport the tea to the UK). The French and Portuguese presence in Africa was coordinated in a similar way. But as Africa was decolonized in the second half of the 20<sup>th</sup> century, the aid, trade and foreign direct investment vectors were increasingly separated. This separation occurred for a number of reasons. First, there was increasing opposition from African countries who saw this integration as being very costly. For example, tied aid generally led to much higher-cost inputs. Second, new players were entering the field (notably the US), and they complained that the integration of vectors locked them out of the game. Third, there was growing public opposition in the OECD economies against what was seen as a framework for the exploitation of many low-income economies. Fourth, multilateral aid grew in importance, and the International Financial Institutions (the IFIs) have increasingly insisted on the delinking of aid, trade and foreign direct investment.

### **TRADE LIBERALIZATION**

The 19<sup>th</sup> century had been an era of rapidly growing trade liberalization. But after WWI (which, incidentally, was in large part a consequence of the imbalances created by rapid global integration), the world economy turned inwards. From the 1950s, this inward focus was reversed, and the second half of the 20<sup>th</sup> century saw an era of rapid and sustained global trade growth, in large part arising from, and

indeed leading to, the liberalization of barriers to trade. This trade liberalization is widely thought to have been one of the major sources of global economic growth.

The intellectual rationale for the positive feedback between trade and growth can be traced back to Adam Smith and David Ricardo (Kaplinsky 2005). Smith argued that the division of labour was the source of productivity growth, and that the extent of the division of labour was contingent upon the size of the market. Hence a global economy, with very large factor and product markets, provides the ideal context for productivity growth. Ricardo showed how if countries specialized in their areas of relative comparative advantage, countries could gain from international trade.<sup>2</sup> More recently, it has been argued that a further benefit derived from global trade is that it spurs technological progress.<sup>3</sup> For these and other reasons, trade liberalization is at the forefront of current policy agendas.

#### **INDUSTRIALIZATION IS THE SOURCE OF LONG-RUN PRODUCTIVITY GROWTH**

Historically, there has been a clear association between countries with high per capita incomes and those with developed industrial structures. There are sound intellectual reasons to explain this association. First, there has been a long trend for the barter terms of trade to turn against commodities and in favour of manufactures. In other words, the prices of commodities fell by comparison of those of manufactures (Bleaney and Greenaway 1993; Cashin et al. 2000; Kaplinsky 2009). Second, the income elasticity of demand for agricultural products is low, so unlike manufactures where falling prices may in some cases be compensated by rising demand, in the case of primary commodities, aggregate export receipts were stagnant or falling. Third, almost all of the commodities, and particularly agricultural products which are affected by climate, were affected by very volatile prices. Fourth, manufacturing has many linkages to other sectors and is a source of technological learning and deepening. And, finally, many primary commodities have been hurt by the development of synthetic substitutes.

For these, and other reasons, virtually all of the developing world has targeted industrialization as the prime building block for long-term and sustainable growth. From the 1980s the orthodoxy was augmented in favour of export-oriented growth, particularly of labour-intensive products such as clothing and furniture.

#### **THE PERVASIVE GROWTH OF STANDARDS AND CODES OF CONDUCT**

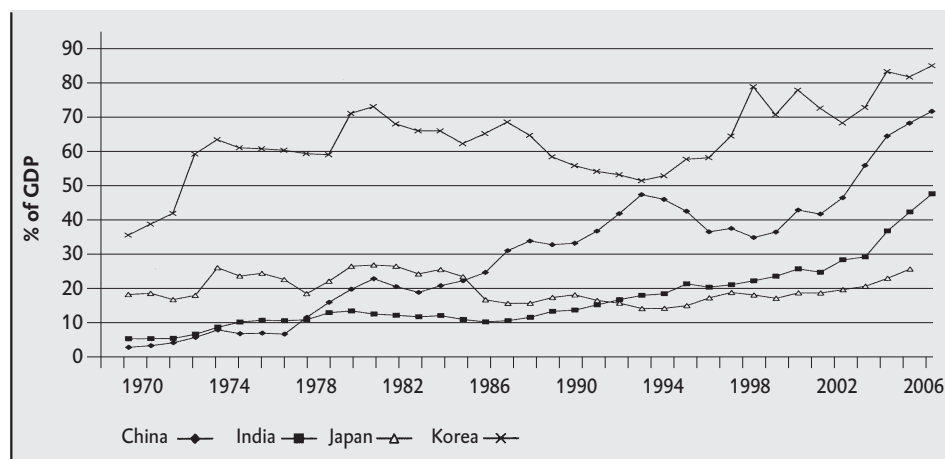
There has been a pervasive growth of standards and codes of conduct which increasingly govern the extent and nature of inter-country relations. These standards are apparent at a number of levels. At the highest level of aggregation they

surface in relation to aid, both bilateral and multilateral aid, where flows are conditional upon a variety of performance measures. Sometimes these reflect economic policies (for example, the Structural Adjustment Programmes of the 1980s and 1990s), and more recently also affect patterns of governance (for example, Paris Club pressures on the transparency of spending; Western pressure on Sudan around Darfur). In other cases, these standards may affect the nature of products (for example organic certification, lead-free toys) and/or processes (for example, child labour, fair trade certification, ISO standards on quality and the environment, EUORGAP standards on agricultural practices).

There have been a number of drivers of these standards which govern inter-country relations. These include governments with respect to aid conditionality, firms with respect to quality and environmental standards, and civil society organizations with respect to labour and other process standards. The common factor in these standards has been that they emanate *from* high-income countries and are applied *to* low-income countries.

### 12.3 THE RISE OF THE ASIAN DRIVER ECONOMIES AND THEIR CHALLENGE TO THE THREE ORTHODOXIES

Each of these four development orthodoxies are challenged by the rise of the Asian Driver economies. Before considering the reasons why this is the case, it is first necessary to explain why, as a general phenomenon, the Asian Drivers are of such historic importance. Since 1979 China has grown at a compound growth rate of 9 per cent p.a., and India at a similar rate since the early 1990s. This rapid growth is not unique – Botswana, Hong Kong, Japan, Korea, Singapore and Taiwan have all grown at similar rates for prolonged periods. But all of these rapidly growing economies were small, so that their growth could proceed without changing the basic parameters of production and exchange in other countries. However, China and India together account for almost 40 per cent of the global population, so that when they grow very rapidly for prolonged periods, the ‘small country assumption’ has to be suspended. China is likely to become the second biggest economy in the world by 2020, and India the third largest by 2035. Moreover, increasingly this growth has taken on a global dimension, and, in particular, China’s dependence on the global economy for both imports and exports has led to a sharp and noteworthy increase in its trade-GDP ratio (Figure 12.1). The size and the global integration of China (and increasingly India) mean that their expansion punctuates and disrupts the equilibrium path of incremental change which has dominated many societies for so long, not least the relatively weak and poor economies in Africa. It is for this reason that these newly emerging very large Asian economies are referred to as the ‘Asian Drivers’.<sup>4</sup>

**Figure 12.1 Trade intensity, 1970-2006 (Exports and Imports as a share of GDP)**

Source: Calculated from the World Bank, World Development Indicators, Accessed July 30th, 2008.

#### THE THREAT OF THE ASIAN DRIVER TO THE SEPARATION OF VECTORS

It is easy to overestimate the degree of strategic integration of China's advance into the African continent. There are an increasing number of Chinese constituencies which are involved. The role of the central government and state-owned enterprises is evident and widely recognised. But less widely recognized are the provincial governments who are often the drivers of large firm involvement in African infrastructure development. Even lower below the surface are the very many migrants, often in Africa illegally, or filtering away from large companies after infrastructural projects have been completed (Mohan and Kale 2007). These migrants are rapidly spreading into a range of small-scale, formal and informal sector activities throughout the continent.

Nevertheless, despite this heterogeneity of Chinese actors in Africa, there is an overriding sense of strategic focus. Particularly in the case of large-scale infrastructural and mining projects, this takes the form of the strategic integration of various inputs from China. It is for this reason that it is virtually impossible to unbundle what constitutes 'aid' and 'foreign direct investment'. China's EXIM Bank provides a line of credit, at apparently advantageous interest rates, for a certified set of large Chinese firms to draw on in bidding for large infrastructure projects, such as those in Angola which cover mining, oil and railways. Most of these funds are tied to the use of Chinese inputs, and make intensive use of Chinese skills. Typically, the costs of these large infrastructural projects are 20-30 per cent lower than those of Western, South African and Brazilian competitors. In the same countries China provides aid for politically sensitive and prestigious projects

such as parliamentary buildings (for example, in Mozambique), sports stadia (for example in the Congo) and police training colleges (for example, in Namibia). Indian operations in Africa are increasingly beginning to take a similar form.

What these strategic operations do is to undermine the accepted wisdom that aid, foreign direct investment and trade need to be unbundled in order to protect the recipient countries (although, as remarked above, it also reflects the demand by those Western economies without a colonial presence in Africa to be allowed to sit at the table).

### **WHAT DOES THE RISE OF THE ASIAN DRIVERS DO FOR THE LOGIC OF TRADE LIBERALIZATION?**

As we saw above, there are powerful analytical arguments in favour of trade liberalization. The pursuit of specialization, coupled with trade in comparative advantage, provides economies with the capacity to increase productivity, growth and employment. It is accepted in this framework that, especially in the case of rapid technological change, there will be frictional costs as firms, regions and countries adjust to meet the challenge of specializing in their areas of relative competence. But these are seen as temporary and as areas where (limited) government support may promote appropriate forms of restructuring.

However, this intellectual edifice is built on two related assumptions, both of which are central to Ricardo's theory of comparative advantage (Kaplinsky 2005). The first is that production and exchange occur in the context of full employment. It is this which forces all economies to choose – which sectors should they specialize in? The second is that capital is immobile. If these conditions do not apply, then production tends to gravitate towards the site of absolute advantage, where the costs of production are lowest. At the theoretical extreme, a single economy may produce everything it needs, and indeed supply the world for all these products (if the world can afford to buy them).

Which one of these scenarios is accurate? Are we in a world of mutual complementarity (the textbook outcome) or sustained structural imbalance? A key to answering this is to look at the structure of trade and finance balances in the global economy, and the evolution of global shares in manufacturing.

Looking at the contemporary world, we can observe significant trade and financial imbalances in the global economy. These imbalances surface most clearly at the macro level with regard to the balance of payments flows between China and the Western world. China's current account trade surplus has grown from a mere £ 1.6 bn in 1996 (0.3% of GDP) to \$ 239 bn in 2006 (9.1% of GDP) (IMF Balance of Payments Statistics, accessed 24<sup>th</sup> June 2008). A related imbalance is in financial

stocks. By mid-2007 China held foreign exchange reserves in excess of \$ 1.4 trillion, with India holding in excess of \$ 200 bn. These reserves compare with the total value of foreign direct investment stock in the US of \$ 1.7 trillion. The flip side of this equation is that both in the case of the US and the UK, the balance of payments deficits are more than 6 per cent of GDP. China is now also the EU's largest trading partner and runs a substantial surplus in its trade with Europe.<sup>5</sup> This trade surplus is both a cause and a reflection of the competitiveness of producing in China. It is often associated with the transfer of production from Europe and North America to Asia, hence reinforcing this growing structural imbalance in the global economy.

Table 12.1 shows how rapidly and significantly Chinese industrial competencies have grown over the past two decades. In a very short period of time (remember how many decades it took continental Europe to catch up with England, and North America to catch up with Europe), China's share of global manufacturing value added almost doubled from 5.1 per cent in 1995 to 9.8 per cent in 2005. What this means for SSA, as we shall see in the following section, is that it is being squeezed out of global markets in very many sectors.

**Table 12.1**      **Distribution of global manufacturing value added at constant 2000 prices**

	Share of the World		Share of developing countries	
	1995	2005	1995	2005
South and East Asia	12.9	19.7	59.5	69.4
of which: China	5.1	9.8	23.6	34.7
Latin America	6.9	6.4	31.5	22.6
Sub-Saharan Africa	0.3	0.3	1.3	1.0
North Africa and West Asia and Europe	1.7	2.0	7.7	7.0

Source: Data provided by Statistics Office, UNIDO, June 2008.

If the benign mainstream economics model were correct, this would be a source of only passing concern. The world needs to adjust to Chinese manufacturing prowess, and other countries (including those in SSA) should produce products in which the Chinese are relatively uncompetitive, or in time Chinese costs will rise, and they will in turn vacate the low-wage labour intensive products for SSA and other, even poorer countries to produce. The problem with this model is that the Chinese do not have to choose. Total employment in Chinese formal sector manufacturing is less than 85 million and is falling, despite growing manufacturing value added and exports. In the same economy, the numbers of unemployed exceed 100 million, with an even larger reserve army of labour in India and other

populated Asian economies waiting to enter the global market. Put bluntly (since space constraints limit a more nuanced discussion), China, India and other Asian Driver economies do not have to choose between different sectors of economic activity but can cover most of the range themselves. For much of their economic life, they live in a world where absolute advantage triumphs over comparative advantage. It is for this reason that global foreign direct investment in emerging markets has crowded into China. Hence – both in regard to a structural surplus in the labour market and the mobility of capital – the win-win outcome of mainstream economics and policy loses its intellectual scaffolding.

In this environment, as we shall see below, trade liberalization has disastrous consequences for SSA (and for many other economies and groups of workers in other economies). Full trade liberalization makes it very difficult for most other regions to cope with Asian competition in general, and Chinese competition in particular. The oft-expressed mantra that “all the developing countries need is a level playing field” looks the wrong way. It focuses on agricultural protection in the rich Northern countries and ensuring access to developing country exporters of agricultural commodities to European and North American markets. It fails to recognize the rapidly growing dominance of Asian Driver economies in manufacturing and many service sectors, in which case a ‘level playing field’ may not so much open the game to SSA exporters but lead to their decimation.

#### **THE RISE OF THE ASIAN DRIVERS AND THE THREAT TO AFRICAN INDUSTRIALIZATION**

How has SSA fared in its attempts to industrialize, bearing in mind that a key component of policy orthodoxy is that industrialization is the key stepping stone to long-term sustainable income growth? In recent years, the African continent has seen revived growth. Yet, despite this rapid economic growth, there has been little change in economic structure in the continent. Manufacturing value added as a share of gross domestic product is not only much lower than in the rest of the world (including in many developing economies), but its share remained unchanged between 1996 and 2004 (Table 12.2).

The rise of China and its growing competencies in manufacturing and presence in global markets for manufactures is an important factor contributing to this malaise of African manufacturing. Chinese competition is experienced both with regard to African manufactured exports and in regard to manufacturing destined for local markets. Beginning with manufactured exports, excluding South Africa from the picture (since South Africa is a very special case in the African context), clothing accounted for more than one-half of all SSA-manufactured exports in 2005. In the same year, global trade liberalization began to allow China and other Asian economies more access to the US and EU markets, markets in which AGOA (the



**Table 12.2** Share of manufacturing value added in GDP (Constant 1995 Prices) (%)

	1995	2000	2004 <sup>a</sup>
Africa <sup>b</sup>	12.1	12.3	12.1
China	34.7	36.7	39
India	16.3	15.7	15.0
Developing Group excl China	19.2	20	20.4
World	19.8	20.1	19.9
a Estimate      b For Africa and not SSA.			

Source: UNIDO International Year Book 2006

African Growth and Opportunities Act of the US) and other preferences had favoured SSA (and other non-Asian low-income producers). Following quota removal, between 2005 and 2007, SSA clothing exports to the US fell by 26 per cent, whilst those of China surged. In some very low-income SSA economies such as Lesotho and Swaziland, the impact on employment was devastating, with a fall in employment in the clothing sectors of 26 per cent and 43 per cent respectively (Kaplinsky and Morris 2008).

But it is not just in export markets that Asian Driver competition is squeezing SSA industrialization. In Ethiopia, although competition from Chinese shoe imports has led to an upgrading of processes and design by many domestic firms, it has simultaneously had a negative impact on employment and domestic output. A study of 96 micro, small and medium domestic producers reported that as a consequence of Chinese competition, 28 per cent were forced into bankruptcy, and 32 per cent downsized activity. The average size of microenterprises fell from 7 to 4.8 employees, and of SMEs, from 41 to 17. In South Africa, imports from China grew from 16.5 per cent of total clothing imports in 1995 to 74.2 per cent in 2005 (Morris 2007). Including imports from Hong Kong, China-sourced clothing made up 78.8 per cent of total clothing imports in 2005. The expansion of clothing imports was associated with a period of rapid decline in formal sector manufacturing in both clothing and textiles. In clothing, employment fell from 97,958 in 2004 to 78,694 in 2006, and in textiles from 21,380 in 2003 to 16,800 in 2005. These two examples are replicated throughout the African continent as many manufacturing enterprises were unable to compete with low cost and superior products imported from China (Kaplinsky 2008).

#### **WHAT DOES THE RISE OF THE ASIAN DRIVERS PORTEND FOR GLOBAL STANDARDS?**

Consider three sets of standards which arguably are meant to protect African citizens, consumers and producers from the negative impact of growth and globaliza-

tion. The first of them are those standards affecting SSA governments, notably in regard to issues of governance and transparency. Two examples show the impact of China in this domain. In Angola, the attempts by the Paris Club of donors to insist on transparency in the spending of aid inflows were scuppered by loans sourced from China. In the Sudan, a range of pressures exerted by Western powers on Darfur has been rendered toothless by Chinese aid and foreign direct investment.

A second set of standards are those which reflect the nature of final products and their associated production processes. Under pressures from high-income Western consumers and NGOs, many African products are required to meet product standards with regard to their organic content, their safety and the conditions in which workers produce in these value chains. Each of these standards reflects the generally high-income environment in which Western consumers and citizens live. China's global presence is likely to subvert these standards. One reason is that Chinese firms operating in SSA do not incorporate these standards in their own operations. So as Chinese foreign direct investment is increasing in SSA, the likelihood of these firms adopting these standards is low. A second reason is that as China and other Asian Driver economies become a market for African products, the nature of these external final markets is very different from that which African producers have been used to serving. Products destined for China are aimed at a very different set of consumers. Hence timber exports to China from Gabon, Mozambique and other countries are not sourced from sustainable plantations and nor do they meet the standards of the Forestry Stewardship Council certification schemes which provide for environmentally and socially sustainable practices throughout the value chain. Put bluntly, Chinese and Indian consumers don't care.

A third set of global standards threatened by the advance of the Asian Drivers are those which operate within global value chains and which have been a vehicle for upgrading for many African producers. Typically, most Western companies have extensive supplier development programmes which have been used to incorporate and improve the competences of local firms. These programmes operate by setting 'QCD' (quality, cost and delivery) standards for their suppliers, and using these as benchmarks for improvement. In South Africa, for example, together with local service providers, the Japanese and US auto firms have systematically addressed the performances of their metal-working suppliers with spread effects to many other sectors of the economy (Barnes and Morris 2008). In Kenya, similar outcomes can be observed (UNCTAD 2005). By contrast, Chinese firms in Africa appear to source much less from their local environment (Burke and Corkin 2006, for Angola) and when they do source locally, there is little evidence of similar standards-based supplier-development programmes.

## 12.4 THE ASIAN DRIVERS AND SUB-SAHARAN AFRICA – WIN-WIN OR WIN-LOSE?

Hitherto we have focused on the negative impacts on SSA of the rise of the Asian Drivers. But this is too restricted a focus and misses the opportunities which are opened up by the rapid growth and global presence of the Asian Driver economies. Three major opportunities can be identified for SSA – the policy space which is opened; the supply of cheap and appropriate products, and the boom in commodity prices.

### THE ASIAN DRIVERS OPEN UP IMPORTANT POLICY SPACE FOR SSA

It is relatively easy to identify the central tenets of the Washington Consensus, both in its original formulation, as in the case of Structural Adjustment Programmes (Williamson 1990), and in its augmented form (Rodrik 2002). The ‘Beijing Consensus’ is more difficult to identify. However, after a series of discussions with senior Chinese stakeholders, Ramo defines it usefully as consisting of two distinct components. The first is that every country must take its own route – one size does not fit all. The second is that reform should be staged and carefully managed over time (Ramo 2005).

In a sense, the precise significance of the Beijing consensus is that it lacks content, which is of course in sharp distinction to the Washington Consensus. What this does, as is graphically and perhaps unfortunately shown in the case of Sudan and Darfur, is provide African economies with the capacity to withstand Western pressure. Increasingly, African governments are saying to the international financial institutions that Chinese experience shows that there is an alternative route, that they do not have to swallow the prescriptions of Western-dominated bilateral and multilateral aid agencies, and that one size does not fit all. There is a tangible sense of this growing policy space across a variety of stakeholders in Africa, in both the private and public sectors. On the other hand, civil society organizations – whose operations in China are heavily circumscribed in China – are perhaps less happy about the ability provided to African governments to withstand pressures and standards emanating from high-income economies.

### THE ASIAN DRIVERS AREA: A SOURCE OF CHEAP AND APPROPRIATE PRODUCTS

We have seen the impact of Chinese competencies in manufacturing and on African producers operating in both the domestic and external markets. But the very same competencies also simultaneously benefit African consumers of capital goods, intermediate goods and final goods. Asian Driver machinery producers offer equipment at much lower prices and often with much greater appropriate-

ness to African conditions than do the historically dominant machinery suppliers from the West. Similarly, Asian Driver intermediate products are also very attractive to African producers, and, indeed, the rapid rise of SSA clothing exports to the US has largely been made possible by the sourcing of cheap textiles from China, India and other Asian economies (Kaplinsky and Morris 2008).

A third set of beneficiaries are African consumers. For example, in South Africa, between 2000 and 2005, the overall price index increased by 30 per cent. By contrast, the price index for clothing fell by 5 per cent. Significantly, as in the case of the Ethiopian shoe industry, competition from Chinese manufactures forced local manufacturers to upgrade their competitiveness. As Table 12.3 shows, price deflation occurred both with regard to imports and locally produced apparel, and was reflected in both lower consumer prices and lower costs to the retailer.

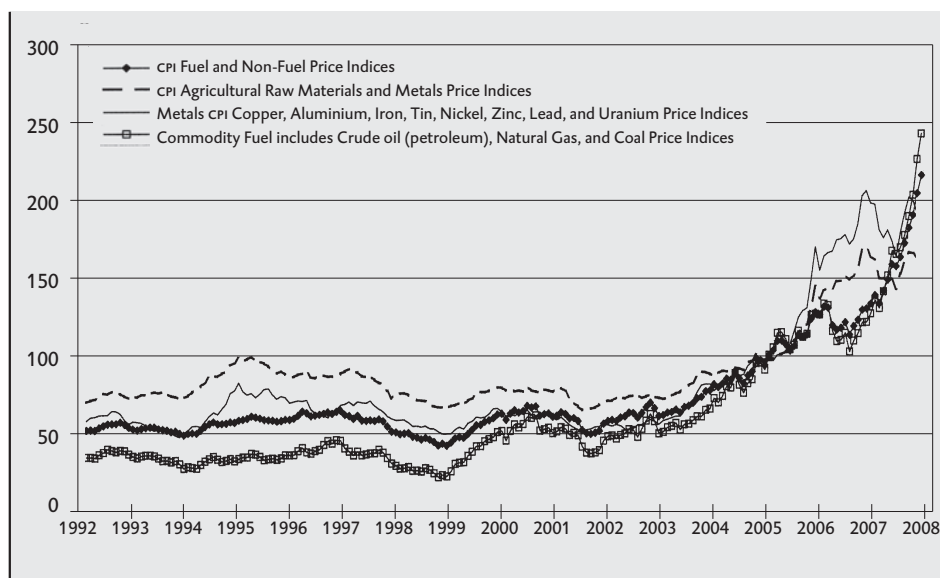
**Table 12.3      Changes in retail price by major retailer for imported and locally produced clothing products in South Africa, 2004–2006**

	Imports	Locally produced
Number of sectors	65	27
% categories experiencing price deflation	61.5%	29.3%
% categories experiencing price inflation	23.1%	22.2%
% categories experiencing no change	15.4%	18.5%
Average % price change	-16.8%	-7.3%

Source: Morris, 2007.

**MAKING THE MOST OF THE COMMODITIES BOOM**

While historically there has been a long-term decline in the commodities terms of trade against manufactures, there have been periods in which commodities prices have boomed (Figure 12.2). However, the previous price spikes in the 1950s and the 1970s were short-lived since the primary drivers of rising commodity prices (the Korean and Middle East Wars) were temporary in nature. This time round, the rise in commodity prices is fuelled by growth in major consuming economies, particularly China, but India is also about to enter the global market for commodities. Both these giant Asian Driver economies are at the early stages of their commodity-intensive growth paths, and short of a major collapse in their growth trajectories, their thirst for energy and mineral products is likely to be sustained for some time (Kaplinsky 2006). Moreover, as incomes in these two economies rise, food consumption patterns are changing in favour of meat products, and this and the associated drive for global energy security and biofuels has now also led to a sustained increase in agricultural prices. The current commodity price boom – since around 2001 – is already more prolonged than the price spikes of the 1950s and 1970s, and there seems little chance of it running out of steam in the near to medium-term future.

**Figure 12.2** Index of commodity prices, 1992-2006 (2005 = 100)

Source: <http://www.imf.org/external/np/res/commod/index.asp>, accessed 18th July 2008

Africa is especially well favoured by these developments, not so much in terms of its existing commodity exports, but rather in terms of its potential exports. Table 12.4 shows that in many mineral commodities, Africa is the primary resource base for the future. In energy, it is not so much Africa's share of global reserves which is so strategically important, as its unallocated reserves. New hydrocarbon discoveries off the west coast of Africa, as well as in Uganda, and the potential for oil discoveries in other parts of Africa make it an exceptionally attractive region for countries with rapidly growing energy needs.

**Table 12.4** Africa's share of global production and reserves (%)

Mineral	Production	Reserves
Platinum Group Metals	54	60+
Gold	20	42
Chromium	40	44
Manganese	28	82
Vanadium	51	95
Cobalt	18	55+
Diamonds	78	88
Aluminium	4	45

Source: African Development Bank (2007)

But although Africa stands to gain from the commodities boom in the future because mineral potential is widespread in the continent, the current pattern of resource exploitation is very concentrated. Only five countries account for more than 90 per cent of all energy exports, and only 12 countries account for more than 90 per cent of all mineral exports. Moreover, although agricultural exports are more widely diffused in Africa (22 countries account for 90 per cent of exports), this excludes more than half of all African countries, most of whose populations live in rural areas. Moreover, in the main, Africa lacks decisive agricultural comparative advantages (Bloom and Sachs 1998).

## 12.5 THE POLICY RESPONSE

The challenge for SSA is therefore to confront the threat arising from the rise of the Asian Driver economies in order to minimize the potentially harmful outcomes. At the same time, the impact of the Asian Driver economies on the global economy provides substantial opportunities. Left to the market alone, the likelihood is an adverse impact on Africa. Thus, there is an urgent imperative for SSA economies to develop an appropriate policy response, and perhaps also for traditional Western aid donors to assist in the African-defined reaction to the Asian Driver challenge.

In developing an effective response, two key changes in focal lens are required. The first is that Africa increasingly has to look East, rather than West or North. The second is that while South-South solidarity must remain an important dimension of policy, it must be critically examined to recognize that there are key respects in which Africa's major problems lie with its Southern, rather than its traditional Northern partners.

Five key policy agendas can be identified. These are in regard to developing strategic capabilities, limiting trade liberalization in global markets, protecting domestic producers, travelling the high road in the commodities boom, and taking advantage of Asian Driver markets outside of the minerals and oil sectors.

### DEVELOPING STRATEGIC CAPABILITIES

A Kenyan academic reviewing the rapid advance of China into Africa observed, "the trouble is that China has a strategy for Africa, but Africa doesn't have a strategy for China". SSA, as we have seen, is not without its attractions to the Asian Driver economies, particularly with regard to its potential as a provider of commodities.

The key, therefore, is for Africa to use this power in commodities to its best advantage in its relations with the new emerging powers, particularly in the

exploitation of these mineral resources and in the provision of related infrastructure. The agreement which the DRC reached with China in 2007 and 2008 shows the potential for using this power to leverage advantageous terms, particularly as China and other emerging economies seek to muscle their way into territories which were previously the domain of Western economic powers. As Box 12.1 shows, it is not just that the DRC was able to crowd in aid-assisted Chinese investments in infrastructure and training and to ensure minimum local content, with local co-ownership in mineral exploitation, but also that it was able to use this leverage provided by China to force the renegotiation of over 60 35-year mining agreements which had previously been reached with Western firms.

In developing this strategic agenda, African countries need to adopt a similar strategy of integrating the aid, trade and foreign direct investment vectors to that which is being pursued most clearly by China, but increasingly also by India. Meeting the trade needs of the Asian Drivers – Africa as a source of primary commodities and, to a lesser extent, as a market for their exports – should be conditional upon their providing aid to exploit these commodities, as well as to meet Africa's complementary developmental and infrastructural needs. Where appropriate, it should also incorporate foreign direct investment from the Asian Drivers, and participation in Asian Driver firm value chains which serve global markets. For example, Chinese and Indian firms providing their fabric to African countries for onward export, through the marketing channels of these Asian Driver firms, to the US and the EU.

#### **LIMITING TRADE LIBERALIZATION IN GLOBAL MARKETS**

What SSA does not need is a liberalized and even playing field in the major global importing markets. This terrain will play to the strengths of the Asian Driver economies and lead to the exclusion of non-commodity SSA producers from many important segments of the global trading economy. SSA needs a world of preferential access in order to build its capabilities

In some cases these preferences need to be both significant and sustained. Africa's recent experiences in the clothing sector are indicative of this. As observed, the surge in Asian Driver clothing exports to the US led to a 26 per cent fall in SSA clothing exports under the AGOA scheme between 2005 and 2007. At the same time, and comparing like-for-like products, Chinese exports into the US grew by 85 per cent, on the back of a halving of unit prices. However, this surge was only a result of the removal of quantitative restrictions on Asian Driver exporters. (In the past many exporters of clothing were limited by quotas on the number of items they could export to the Northern economies.) Once these quotas were removed, Asian Driver exports surged, and SSA's clothing exports fell, despite the fact that Africa continued to benefit from preferential access into the US.<sup>6</sup>

**Box 12.1      The strategic integration of aid, trade and foreign direct investment:  
China and the DRC, 2007-8**

The context is one in which the DRC possesses extensive mineral resources but lacks the resources or technology to exploit them. (The total DRC state budget in 2007 was only \$ 1.3 bn, most of which was used to pay salaries.) Before the elections in 2006, the DRC government had approved a large number of 35-year mining contracts in processes which were not transparent. Reacting to international concern, the new incoming government began a process of reviewing 61 mining contracts entered into between 1997 and 2003. The ability to review these contracts was strengthened by the existence of an alternative path to exploiting the DRC's extensive mineral deposits, in large part by the Chinese aid-trade-foreign direct investment package signed in 2007 and 2008.

This constituted two large, but related, initiatives. The first, entered into in late 2007, involved a loan for \$ 8.5 bn from the Chinese EXIM Bank. This was to promote exploitation of the mining sector and was supplemented with a further \$ 5 bn loan in early 2008. Together, these loans were securitized by providing China with access to \$ 14 bn of copper and cobalt reserves. This aid was tied to an investment package to exploit these mineral resources by a jointly owned company, Socomin, owned by Chinese (68%) and Congolese (32%) state-owned companies. The \$ 3 bn investment in the mines will be repaid out of future profits. By agreement, not more than 20 per cent of the workforce can be Chinese, 0.5 per cent of investment will be allocated to training, a further 1 per cent will be spent on social investments and 3 per cent on environmental projects in the surrounding areas. In addition, at least 12 per cent of the work will be subcontracted to local firms.

In addition to these investments in mines, China will provide support for investments in five key areas identified by the DRC state – water, electricity generation, education, health and transport. Some \$ 8.5 bn will be allocated to a variety of projects which include a high-voltage power distribution network, highway and railway extensions, and the construction of 31 hospitals, 145 health clinics, 5,000 houses and two universities. Additional resources are allocated to rehabilitate and expand water supplies. Supplementing all of this is a range of additional aid projects, including training programmes in China for poverty reduction and subsidized loans to construct the national People's Palace (the parliament) and the Stadium of the Martyrs outdoor sports complex.

Source: Vandaele 2008; Komesaroff 2009.

## **PROTECTING DOMESTIC PRODUCERS**

An analogous policy agenda can be identified for the protection of SSA producers in their domestic markets. Patently, in many sectors, and particularly in manufacturing, African producers are unable to withstand competition from Asian Driver producers. Where appropriate – and of course this revisits the discussion on industrial policy – SSA countries will need to have the capacity to protect themselves from this competitive onslaught from the Asian Drivers. But in doing so, five important and related considerations will need to be borne in mind.



The first is that the interests of consumers need to be balanced against those of producers. This is not just a matter of the consumers of final products (for example, shoes and clothes imported from the Asian Drivers), but also those of the users of intermediate goods (for example, sourcing textiles from the Asian Drivers) and capital goods. Second, selectivity will be required. It is clearly undesirable to protect all sectors from competition, only those where it is deemed that SSA can develop a distinct advantage over time. Third, and related, over what time horizon should these advantages be developed and for how long and in what form should this preferential regime be sustained? Fourth, should this protective regime be tilted against all competition from external firms, or only that from the Asian Drivers? And finally, in previous eras of protection, progress was limited due to the absence of competition. Markets in individual countries were too small to allow for a combination of the protection *and* competition which is required to spur productivity growth, and this may indicate the need for a regional approach towards protection.

An important related policy agenda here is that of regional integration. On the export side, trade with China and, to a lesser extent, India is disproportionately geared to primary commodities. It is significant that intra-regional exports are

**Table 12.5**      **Technological Intensity of SSA's trade: Share of exports and imports comprising different categories of products, 2005 (%)**

	World (excl. China, India)	China	India	Intra-SSA
	<b>Primary Commodities</b>			
Exports	67	81	38	17
Imports	8	3	13	36
	<b>Resource Based</b>			
Exports	16	15	46	35
Imports	17	9	24	27
	<b>Low Technology</b>			
Exports	4	1	3	13
Imports	10	40	22	11
	<b>Medium Technology</b>			
Exports	9	2	11	23
Imports	46	33	28	20
	<b>High Technology</b>			
Exports	1	0.1	1.1	5
Imports	18	16	12	4

Source: Calculated from COMTRADE (Accessed through <http://wits.worldbank.org>) in January 2007

more technology-intensive than those destined for non- SSA markets, and that the degree of technological intensity has been growing (Table 12.5). Hence a regional approach towards protection from Asian Driver competition may simultaneously also have important learning externalities.

### **THE HIGH ROAD TO THE COMMODITIES BOOM**

It is possible to distinguish a low and a high road to resource exploitation. Either Africa can remain a simple source of raw materials, providing little else but basic ores and oil, or it can become a source of knowledge built around the resource sector. This high road is a path trodden by the USA in the 19<sup>th</sup> century and by Australia and Norway in recent decades, where the National System of Innovation was oriented to making the most of the commodity resources (Wright and Czelusta 2004). While it may appear to be a long way from Africa's current low-tech road to the commodities sector, 'the longest journey begins with the first step,' and key long-term investments in knowledge and human resources related to the commodities sector need to be made now if Africa is to thrive in the future.

### **ACCESSING ASIAN DRIVER MARKETS**

The Asian Drivers are of course an important source of demand for Africa's commodities exports. Even if the commodities are not directly consumed by the Asian Drivers, they are sold into global markets whose prices have been raised by demand from the Asian Drivers. In other words, it does not matter so much if Nigeria sells oil directly to China, but that it sells oil into global markets whose prices have been radically affected by demand from China.

There are other products, however, in which the direct export relationship is potentially more important and where Africa can benefit directly from augmented demand in the Asian Drivers. Here trade preferences for African exporters have a role to play, although on their own, this may have little impact. For example, in recent years China has provided duty-free access to a range of African manufactures, but given the weakness of supply capacity on the continent, there has been little increase in manufactured exports to China. Thus, recent initiatives to link trade opportunities to production support are important, such as the planned investment of \$ 800 mn in Mozambique's agriculture sector by aid-assisted Chinese producers. This targets an increase in rice production from 100,000 tonnes to 500,000 tonnes a year by 2013.<sup>7</sup>

## 12.6 POLICY ACTORS

The issue is who in Africa is going to drive this strategic agenda? At the most basic level, this must necessarily involve individual African governments. Although they do not generally directly control inward foreign direct investment and trade flows, they hold the key levers which determine access to their economies. Each of the governments needs to make a cool, informed assessment of its specific attractions to the emerging economies and then to coordinate an integrated strategic response to offer access to the emerging economies in a way which best meets the needs of their domestic economies. This will involve extensive background analysis, but also the convening of appropriate stakeholder groups to ensure an integrated approach providing clear signals to emerging country partners. But formal written strategies which are not implemented effectively are much less use than dynamic and active coalitions of local interests interacting effectively amongst themselves and with emerging country partners.

Another arena for integrated response is in regional and all-Africa forums such as SADC, ECOWAS, NEPAD and the AU. These multi-country organizations are important for three major and related reasons. First, by aggregating African countries in the bargaining process, they help to avoid contradictory bargaining positions and wars of incentives. As has been evident for many decades in the diamonds sector, there is enormous power in cartelized bargaining. This is not just a matter of achieving the best price for Africa's resources, but also ensuring that wider objectives can be met, such as the construction of regional infrastructural networks to provide access for non-commodity exporters. Second, and related to this, as observed earlier, not all African countries have extensive commodity deposits or are significant commodity producers. Their interests need to be protected by those economies which do have primary resources and markets of interest to the emerging economies. Including these marginalized economies is not just a matter of altruism for the commodity exporters.

As we have seen, intra-regional trade may be a primary area for the development of the capabilities which are required for long-term and sustainable growth so that it is in the interests of all parties – commodity exporters and non-commodity exporters alike – that these intra-regional links are strengthened as a consequence of engaging with the emerging economies. A final reason why the multi-country organizations are important is that the emerging economies themselves see them as important organizations for bargaining access to Africa's resources and markets. This is most evident in the case of the FOCAC (Forum for China African Cooperation), but it is also relevant for other emerging economies as well.

What role is there for the EU in this? This all depends on whose interests in the EU are being considered. The private sector clearly is affected by the rise of the Asian

Drivers, their presence as suppliers in SSA, and their competition for increasingly scarce global resources. From this perspective, the agenda would be to strengthen the opposition to an increasing Asian Driver presence in SSA. Here there may be common interests with the EU NGO community who, in general, are likely to see an increasing Asian Driver presence in SSA as being inimical to the agenda which they are pursuing.

However, both of these EU interest groups are perhaps a little blind to the opportunities opened up for SSA by the global rise of the Asian Drivers. It is true that without appropriate interventions, SSA stands to lose a great deal from the unchecked advance of the Asian Drivers. But at the same time, real and important opportunities are opened up. SSA's abilities to grasp these net benefits depends on its strategic capacities to act in a focused way, and in concert with others. The real test of EU development assistance is whether it can assist SSA in this endeavour in a disinterested way, in the knowledge that in many respects, the greater SSA's capacities are to work effectively with its Asian Driver partners, the more likely it will be that EU corporate interests will suffer.

## NOTES

- 1 I am grateful to Masuma Farooki for gathering and processing much of the data contained in this chapter.
- 2 The distinction between absolute and comparative advantage is critical here. A country which has the lowest costs of production possesses an absolute advantage. But it may be relatively more competitive in some sectors than others. This is its domain of comparative advantage. Similarly, a country may have an absolute disadvantage in all sectors – that is, there are no sectors where it is the lowest cost producer. But the degree of this absolute disadvantage may differ across sectors, and it is therefore indicated that it should specialize in the areas in which it has the least disadvantage.
- 3 This, however, is contested by Greenaway and Kneller (2007), who produce evidence to show that firms raise their technological capabilities in order to participate in global markets, rather than as an outcome of participating in global markets.
- 4 [www.asiandrivers.open.ac.uk](http://www.asiandrivers.open.ac.uk); see Special Issue of *World Development* 36, 2, 2008.
- 5 These broad numbers hide a larger story, and space constraints mean that it cannot be considered in this chapter. In fact, China is in trade deficit with its region, so the major imbalance in the global economy is not so much between China and the West, but East Asia and the rest of the global economy. Products which surface as ‘made in China’ are often only assembled from capital goods and components sourced from other parts of its region.
- 6 SSA’s exports into the US were duty-free. China’s exports (as well as those from India and other Asian countries) faced a weighted average tariff for textiles of 6.93%, and 11.36% for apparel (TRAINS database accessed through <http://wits.worldbank.org> on 24 January 2007).
- 7 <http://www.bizchina-update.com/content/view/1128/2/>, accessed 24 July 2008.

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## 13 POST-WAR PEACE-BUILDING: WHAT ROLE FOR INTERNATIONAL ORGANIZATIONS?

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### 13.1 INTRODUCTION

In recent decades, international organizations have played an ever growing role in ending civil wars and the subsequent processes of reconstruction and development. Between 1987 and 1994, the number of UN peace missions tripled (Doyle and Sambanis 2006: 6). Other international actors, like the European Union (EU), the Organization for Cooperation and Security in Europe (OSCE) and the African Union (AU), also organized peace missions (Kaldor 2007: 22). In addition, bilateral donors and non-governmental organizations (NGOs) were active in conflict and post-conflict zones. The idea that security and development are closely interrelated has become widespread in the international community and is reflected in the term ‘peace-building’, which emphasizes the need for structural reform to achieve sustainable peace (Uvin 2002).

These efforts have produced mixed results. The number of armed conflicts has fallen substantially since the end of the Cold War, partly as a result of UN peace missions (SIPRI 2008; Mack et al. 2007). But the strength of these operations lies in terminating or mitigating the violence, while ambitions to achieve sustainable peace by introducing a wide range of reforms often run aground. That is the case, for example, in Haiti and the Democratic Republic of Congo (DRC), where it is difficult enough to halt the violence, let alone take any meaningful steps towards sustainable peace (Einsiedel and Malone 2006; Reyntjens 2007). But it is also true in relatively successful cases, like El Salvador, where the war has been brought to an end and there have been radical political reforms and economic growth, but this has created new forms of social inequality (van der Borgh 2004). In many post-war countries, the risk of crisis or resumption of the conflict remains a real danger after peace operations come to an end. Many of these countries are thus referred to these days as “fragile states”, where “the institutional arrangements embody and perhaps preserve the conditions of crisis” (Putzel 2007: 1).

The problems of political instability, insecurity and poverty in post-war societies are proving difficult to overcome. Local capacity for change is limited, an effective institutional framework is lacking, while tense political relations and mutual hatred can complicate the situation even further. That presents international actors with difficult dilemmas. What is an adequate role for them in situations where needs are great but local institutional support is limited? What are sensible objectives? The answers to these questions vary from arguments for more inter-

vention and more influence on the part of international actors to pleas for a more hands-off approach, based on the belief that international actors are unable to “fix governments or societies”.<sup>2</sup>

There are no simple answers to the question of what international actors should do. A review of discussions on the possibilities of intervention in conflict and post-conflict zones reveals paradoxes and dilemmas. Hands-off and interventionist approaches both present their own problems. There is no all-embracing ‘post-war rebuilding theory’ and no models that are applicable in all cases. Moreover, the approach in individual cases is not only chosen on the basis of objective analysis of the situation on the ground. The knowledge of individual external actors is by definition limited and always based on an interpretation of the situation. An important part of the practice of peace-building consists of matching the different interests and agendas of local and external actors. The question for external actors is therefore what the possibilities and limitations are, given the local situation and the balance of forces locally and internationally.

In a recent study Doyle and Sambanis (2006) emphasized that a good match is necessary between international capacity, local capacity and the local situation. The weaker the local capacities and the more problematic the local situation, the more international intervention is required. But the capacity of international actors to develop joint strategies and strengthen local capacities is of course also limited. One of the problems of international peace-building is that the situation is extremely complex and the capacity to achieve change limited. Grindle (2007: 664) asks, in relation to good governance: “What are the best ways to move forward given limited resources of money, time, knowledge, and human and organizational capacity?” This question is equally applicable to the activities of international actors in peace-building: What, given the limited capacities of international actors, are realistic objectives and achievable interventions?

This article begins by discussing what makes societies peaceful and what objectives this implies for international actors. It questions the usefulness of over-ambitious frameworks and templates for peace-building and argues for context-specific, strategic aims. That is followed by a discussion of the capacity of the international community. In every country, this comprises a unique constellation of international actors, who find it difficult to act in unison, resulting in countless problems of coordination. This is a serious limitation that should temper the ambitions of those involved. The consequences for the aim of working with local actors and building up local capacities are then discussed. A paradoxical situation arises in which the international community tends to play a more intrusive role in contexts where post-war peace-building is at its most difficult and complex. These are precisely the kinds of difficult situation in which the scope for external engineering is limited. The article concludes by arguing that this is another reason to

formulate strategic objectives that strike a balance between the ideal of liberal peace, the actual situation in the countries concerned, and the capacities of international organizations and local actors.

### 13.2 RECIPES FOR PEACE?

The notion that stopping an intra-state war takes more than just bringing the violence to an end is widely accepted these days. A distinction is made between preserving a ‘negative’ peace – silencing the guns – and the social process in which the circumstances and conditions are created for a sustainable peace. This would lead to a ‘positive’ peace and requires addressing the deeper causes of the conflict, such as weak governance, unequal distribution of land or discrimination against religious or ethnic groups. It is therefore assumed that, in most peace processes, a triple transition is required to achieve sustainable peace, with security, a functioning democracy and economic liberalization reinforcing each other. This idea is partly founded on the “liberal peace” thesis, which states that liberal states are more peaceful in terms of both their internal and external relations (Paris 2006). This relates to two propositions: that economic liberalization (growth and trade) prevents war, and that democracies do not fight each other and enjoy more peaceful internal relations.

The idea of the liberal state is central in the templates developed by think tanks and policy-makers for policy on post-war reconstruction. The models generally focus on five sectors: security, law and order, government, the economy, and the social sector.<sup>3</sup> They specify tasks for each sector in the short, medium and long term. These models are explicitly intended as guidelines for the interventions of various actors, local and international, who should coordinate their interventions as much as possible. There is wide acceptance that strategies must be flexible and that “one size will not fit all” (Serwer and Thomson 2007: 370). Furthermore, not all reforms can be implemented at once, and choices have to be made regarding their sequence and pace. But the central idea of these models remains that peace-building has certain aims which must be pursued simultaneously as far as possible.

The liberal peace thesis and the policy models on which it is based have, however, a number of limitations. One fundamental criticism is that the thesis is based primarily on experience in developed countries and cannot be simply applied in countries with a completely different history and structure. Moreover, the countries that serve as examples have themselves passed through stages in which economic and political freedoms were restricted (Senghaas 1985; Chang 2007). Various authors therefore emphasize that certain basic conditions have to be met before the thesis is applicable. Hegre (2005: 41), for example, states that “social and economic development are preconditions for liberal peace and that all aspects of

the liberal peace are clearly strongest for developed countries and pairs of countries". In addition, in a rapidly developing society, the introduction of democracy is in itself a political and frequently destabilizing process. This is particularly the case in countries that are unstable and afflicted by war.

Senghaas (2007), who elaborates on Kant's *Perpetual Peace*, emphasizes that economic modernization in less developed countries leads to considerable social mobility and "fundamental politicization", which in turn generates social tensions. To deal with these tensions, mechanisms have been developed over the centuries in Europe which made possible "civilised, i.e. durably non-violent management of indispensable conflicts" (Senghaas 2007: 19). Senghaas identifies six mutually reinforcing conditions which are crucial for the non-violent management of conflicts: a legitimate monopoly of power and the rule of law, democratization, a culture of conflict settlement, affect control, and social and economic equality (ibid.). He recognises, however, that introducing each element is a difficult process, which can be accompanied by tension and conflict (ibid., 23). Thus, reforms that are required to bring about sustainable peace themselves create new tensions. Senghaas recognises that this "hexagon" is a historical construction and that other forms of conflict management are also possible. That is no reason to scrap the hexagon, but the social tensions and conflicts generated by the political and economic reforms that can make peace sustainable clearly a produce "peace-building paradox".

One possible solution to this paradox is to introduce reforms in stages. Paris (2004), for example, calls for the international community to play an active role in strengthening political and economic institutions before implementing political and economic liberalization. But the idea that international actors can build a country up "step-by-step" sees peace-building as a linear process and ignores the unpredictable character of post-war transitions and of modernization as such, which proceeds differently in each country (Duffield 2001: 9; Chandler 2006a: 5-6). Post-war transitions seldom develop in the way presupposed in peace-building models. Moreover, these models cannot specify what steps should be taken if violence flares up again or if the peace process comes to a halt. This is often the case in reality, however; the same can be said of peace processes as Carothers (2002: 10) observed in relation to countries trying to achieve democracy: "they got stuck somewhere on the assumed democratization process and entered a grey zone in which they have only some of the attributes of democratic political life". According to Carothers (2002: 19), it is therefore important for external actors "to determine their interventions on the basis of an analysis of the key political patterns in countries, rather than trying to do a little of everything according to a template of ideal institutional forms". This is an important lesson for peace-builders.

Cousens has applied this criticism to peace-building. She states that, in post-war situations, international actors tend to try and work on too many fronts at the same time. That leads to reconstruction “overload” and an overfull agenda, which cannot be fulfilled in practice. Cousens therefore emphasizes the need to make choices and “to strike a balance between negative and positive peace” (Cousens and Kumar 2001: 12). This means that the strategic focus should lie on processes of conflict solution and expanding the scope for political action, or “the construction or strengthening of authoritative and, eventually, legitimate mechanisms to resolve internal conflict without violence” (ibid.). *Peace-building as politics*, as Cousens calls this approach, is intended as an “organizing principle” that can be useful in determining the “range, timing, and priorities of international action” (ibid., 5). In this approach, therefore, there is no a priori list of “peace-building activities”.

The advantage of this approach is that it is context-specific. Not only does every country have its own specific problems, but the violence that peace-building aims to bring to an end is also very different in nature. Civil war is often seen as a confrontation between two or more parties, while in practice there is a wide diversity of interrelated conflicts and expressions of violence, each with their own dynamics (Richards 2005; Keen 2008). Violence in civil wars is increasingly fragmented. The 2008 SIPRI Yearbook (SIPRI 2008: 6), for example, observes that “at the local level, the rise of militant power brokers ranging from neighbourhood security groups to street gangs and smuggling networks contribute to the further fragmentation of violence”. The very complexity and stratified nature of intra-state violence requires tailor-made interventions. Therefore, according to Woodward (2007: 164), the emphasis in peace-building must lie on political mechanisms “that keep limits on the use of violence as a means to political ends” so as to affect change in “the extreme uncertainty over power – who has it, who has a right to it, how access to it is regulated”.

While the comprehensive models of peace-building generally specify what measures need to be taken in countries affected by war to bring about the transition from negative to positive peace, *peace-building as politics* lays the emphasis on the strategic question as to what contribution international actors can make to transcend a situation of negative peace. The choice of a strategic focus on strengthening the political capacities and mechanisms to curtail or end violence does not mean, however, that international support in other areas, such as return of refugees, economic aid or social programmes, is not important. But these programmes must contribute to what is the crux of peace-building: supporting a non-violent end to the conflict (Cousens and Kumar 2001: 184). The two approaches do not necessarily exclude each other, but in practice, there is often tension between ideal types of peace-building and the tough choices that have to be made in difficult processes of change. After all, the reforms required to achieve

a 'liberal peace' are themselves often accompanied by tensions and conflict. It is therefore important that international contributions to peace-building primarily focus on how they can best manage or steer these local processes of change in the short and medium term.

### 13.3 INTERNATIONAL CAPACITY AND COORDINATION

The question of whether international actors can influence political change processes, and how, depends partly on their willingness to intervene and their capacity to develop an unambiguous strategy. In that sense, the term 'international community' is a misnomer. Every post-war society has a unique network of intervening actors, who change over time and who often have great difficulty in coordinating their activities. The international presence in post-war countries consists on the one hand of actors who play a formal role in implementing the 'peace deal' (the civil and military presence, with or without a mandate from the UN) and, on the other hand, donors and international organizations (including international financial institutions, NGOs and bilateral donors) which support the peace process in a wide variety of ways. UN-mandated peace operations are usually deployed for a specified time, and after they leave, other actors, such as bilateral donors, often play a significant role. Every country, or even every region within a country, thus has a unique configuration of international actors, who develop a specific capacity for action.

The collective capacity of international actors is in the first place determined by the international military and civil presence, in relation to the local conditions and defined aims. Dobbins et al. (2003: 146) state that sufficient time, manpower and resources are the most important factors in determining the success of a mission: "low input of military and civilian resources yields low output in terms of security, democratic transformation, and economic development". In addition, Doyle and Sambanis (2006) emphasize that the required international capacity should be tailored to the local capacity and the local degree of hostility. The greater the hostility and the weaker the local capacity, the smaller is the "peace-building space" and the greater is the need for international intervention. Stedman (2002: 20-1) goes a step further, emphasizing the capacity of external actors to reach a consensus on strategic choices. A lack of consensus among international actors on the deployment of manpower and resources sends contradictory signals to the local parties in the conflict. It is therefore a matter of reaching agreement and jointly determining the best strategy. Stedman adds that the strategy needs to be different in different contexts: "what is appropriate in one context may be inappropriate in another" (ibid., 21). In this way, Stedman emphasizes the importance of strategic coordination by international actors and the knowledge of the local context that requires.

In a post-war context, a lack of coordination can jeopardize the transition process. Coordination is an issue at various levels, for example between military and civil missions, but also between and within civil organizations (Frerks et al. 2006). Rubin (2006), for example, states that in Afghanistan there was “a contradiction between the counterterrorism strategy and the stabilization strategy”. One example of this is the fact that during Operation Enduring Freedom, the US made frequent use of warlords, former leaders of guerrilla groups that fought against the Taliban. The US policy strengthened the already strong positions of power they had acquired for themselves in the provinces. That conflicted with the task of the UN mission in Afghanistan (UNAMA) to build up a central administration, in which the warlords would have to be disarmed. Within the UN missions, too, the coordination between military and civil tasks and missions is a regular cause for concern and not infrequently a source of tension. Of course, Afghanistan also shows that new forms of international intervention and cooperation can evolve, but tensions between different organizations and approaches remain the order of the day.

Coordination between civil organizations also proves to be difficult. This is particularly the case in countries with a large international presence, as in Bosnia after 1995 and Kosovo after 1999. In a report on Bosnia, the International Crisis Group (ICG 2001: 4–7) argued that there was a lack of “overall vision and effective structures, a lack of leadership and coordination” and referred to “personality and turf wars” between and within organizations. However, even in countries with a more moderate international presence, coordination of the various international programmes proves to be a problem, for example between the political and economic reform programmes of the UN and the International Financial Institutions (IFIs). In El Salvador, tension arose between the costs of reconstruction, to which the Salvadorian government had to contribute, and the IFIs’ insistence that the government implement cost-cutting measures (De Soto and del Castillo 1994; del Castillo 2001). This fragmentation of the international presence not only results in a squandering of resources, but also in contradictory signals. Ghani and Lockhart (2008: 177), for example, state that “the diversity of networks and organizations that operate on the basis of different rules and incentives and respond to different national and international constituencies inside the country generally makes for a fragmented strategy”.

Numerous studies have criticized the lack of coordination and have argued in favour of aid architecture reforms (Forman and Stewart 2000). The Paris Declaration on Aid Effectiveness<sup>4</sup> and the establishment of the Peace-building Commission<sup>5</sup> at the UN are important initiatives to improve coordination. There are also examples of international organizations that work together more closely at the local level. For example, in her study of Kosovo, Holohan (2005) shows how international organizations at the municipal level were more successful when they

operated in networks which enabled them to cut through a certain amount of red tape and promote mutual consultation. Another example is the diplomatic network International Committee in Support of the Transition (CIAT) which was instrumental in forging a more concerted international strategy and in ensuring that the elections could go ahead (De Goede and van der Borgh 2008). However, despite these positive examples and good intentions, it is important to acknowledge that there are also “limits to coordination”, for a number of reasons. In the first place, international intervention is motivated by a mix of idealistic and realistic interests. The strategic agendas of international actors – such as access to resources – will affect attitudes to political reforms “on the ground” (Woodward 2007: 162). This can even lead to contradictions between various policy departments in Western governments which are difficult to harmonize (Stewart and Brown 2007: 12-3). A second factor which hampers coordination is inherent in each organization’s frameworks, budget lines and accountability criteria (Woodward 2007: 163). A third factor is the fact that there can be a fundamental difference in insight between international actors regarding the definition of good policy, which tasks have priority, how policies should be implemented, and which are the most suitable counterparts.

One of the greatest challenges facing international actors who are involved in international peace-building is the capacity to develop a joint strategic focus to enable specific problems to be tackled. It is generally acknowledged that a consensus on the use of manpower and resources is extremely important because, otherwise, parties at the local level may receive contradictory signals. At the same time, the varying interests, visions and methods of working of international actors frequently hamper such cooperation, and in practice, the result is often a hodge-podge of interventions, each with their own objectives and agendas. In effect, the international community has to be recreated each time to cater to each new situation. The more complex the situation and the greater the international presence, the more difficult this process will be.

### 13.4 LOCAL CAPACITY AND INTERNATIONAL FOOTPRINT

When they attempt to build up local capacity, external actors are confronted by the fact that local institutions and capacities are greatly affected by the war. As a result, there are considerable differences in the complexity of local contexts. In a period of post-war reconstruction, two related factors are of particular importance: (a) the degree of local consensus on the future social order, as usually set out in general terms in a peace agreement, and (b) the nature and power of local institutions and of the state. A considerable degree of local consensus on the future political structure in combination with an existing state which can be reformed – as was the case in El Salvador after the peace agreements had been signed – implies a simpler initial situation than when both are weak. A weak local consensus and



state often imply a “multiplicity of institutions” or of a number of different power structures which sometimes still have weapons at their disposal and can often rely on popular support. This kind of political fragmentation is, in itself, more the rule than the exception in weak states – even when they are not at war (Migdal 2001: 11–2). During civil wars, these alternative systems of power, profit and protection acquire more space, and they often cause an even greater erosion of the state. These structures operate at different levels and according to their own logic. More than just parties in an armed conflict, they flourish when exposed to a certain degree of instability and disorder. Once a civil war is over, they adopt a different guise, but often continue to be powerful. For example, although elections took place during the political transition in the DRC in 2006, what Raeymaekers refers to as various “semi-autonomous subsystems of power” still exist (Raeymaekers 2007: 30). The same situation exists in Afghanistan.

The issues relating to local institutional structuring are complicated. On the one hand, most peace agreements give the militant parties a place in the interim administrative arrangements (such as the interim government in the DRC) which are an initial step in the implementation of the peace agreements and usually lead to the organization of elections. Even in cases in which peace-building takes place after military intervention, as in Kosovo or Afghanistan, international actors establish contacts with local warlords or rebel leaders who then play an important role in the transition. On the other hand, the ambition is to intensify political reforms in the long term and allow new actors to play a role. For this to happen, the existence of sufficient local capacity and/or local willingness is a condition and quite often a bottleneck. For example, international actors are confronted by the fact that large numbers of highly qualified people have left Haiti in recent decades. This has resulted in attempts to increase the involvement of the diaspora and to encourage them to return (Einsiedel and Malone 2006).

A crucial aspect of peace-building is the question of whether and how processes of state formation, administrative reforms and democratization by external actors can be designed. One of the most important issues is the question of whether democratization is possible in countries in which the state structure is weak or has little authority (Ayoob 2007: 106–7). There has been plenty of discussion on this in the academic literature, in which a distinction can be made between arguments in favour of state formation first, followed by democratization (sequencing) on the one hand, and simultaneous gradual introduction on the other (gradualism).<sup>6</sup> The practice of international peace-building leans strongly towards the idea of gradual reforms at the political level, with the aim being step-by-step and simultaneous intensification of democratization and further state formation.<sup>7</sup> This involves the implementation of a number of democratic reforms, with the highpoint often being the organization of elections. Other key issues are reforming the army, the police and the judicial system. This gradualist approach is attractively described as

“reaching for the core element now, but doing so in iterative and cumulative ways rather than all at once” (Carothers 2007: 25).<sup>8</sup> This same approach is applied in cases in which the international community has installed an international administration – as in Kosovo and East Timor – where, although a much larger effort was made in the field of state-building, elections were held before the process had been completed. Nevertheless, even after such reforms, the state often remains weak as regards a number of its core functions – security, services and representation – as is evident for example in Haiti, the DRC and Liberia (Milliken and Krause 2002: 756). These restrictions have resulted in a longer and sometimes more intrusive presence on the part of international actors.

In recent decades, the roles of external actors in transition processes have varied greatly. Roughly speaking, a distinction can be made between, on the one hand, a strategy whereby the control is more in local hands while the international community (chiefly the UN) plays a more facilitating role, as in El Salvador and, to a certain extent, in the DRC as well. This strategy is also referred to as the “light footprint” strategy. On the other hand, there are situations in which the international community applies a more ambitious and intrusive agenda and can even take the administration over completely for a certain period of time – as in Kosovo. This approach is also referred to as the “heavy footprint”.

In the first case, the point of departure is the local political process that develops at the national level through a number of different phases: the installation of an interim government in which the warring parties participate, reform of the structures which these parties adhere to (the “institutions of war”) into political parties, and the demobilization of the warring parties (Lyons 2005). Lyons calls this the “demilitarization of politics”. Elections are an important moment in this model, although they can have a variety of functions. They can represent a key moment in the democratization process, but can also have the more limited goal of “war termination” while serving, in both cases, as a reference point in the “exit strategy” of the international community. In this process, the emphasis is on inspiring confidence between the parties and stimulating the processes of joint problem-solving. This has worked well in a number of instances, as in El Salvador and Mozambique, where the elections signalled a lasting end to the civil war. On other occasions when this strategy was applied, like in the DRC, the elections did little more than round off a shaky peace process. The latter has, of course, to do with the weak state in the DRC, the regional dynamics of the conflict, the economic agendas of the parties, and the continuing tensions and violence (Raeymaekers 2007). However, Lyons argues that the model can indeed be successful in these kinds of cases. Mozambique, for example, was also regarded as an extremely difficult case at the beginning of the 1990s. To this could be added that the “demilitarization of politics” is usually a first step which is followed by programmes (by other donors) aimed at facilitating further reforms.

The second approach places the emphasis on more intrusive forms of intervention whereby responsibility is assumed for a number or even all administrative tasks.<sup>9</sup> Experience with this approach has been acquired in recent years in, for example, Bosnia, Timor-Leste and Kosovo (Caplan 2005; Yannis 2002). However, Bosnia and Kosovo have demonstrated that these are expensive missions which encountered considerable problems when it came to establishing a properly functioning local administration while at the same time maintaining legitimacy vis-à-vis the local population (Chesterman 2004; Caplan 2005; Chandler 2006b). There is, therefore, every reason to be reticent with regard to these kinds of missions. It is, however, possible to exercise “pressure” at certain moments, to use “soft intrusion” or even develop forms of shared sovereignty (Ellis 2005; Krasner 2005). In Liberia this led to a discussion between the government and donors about the external control of revenue gathering in a number of key sectors. Eventually, the decision was taken to set up the Governance and Economic Management Assistance Program (GEMAP), which gave donors the right to decide on financial management issues as well. Incidentally, the programme only started to function properly during the tenure of the first elected president, Ellen Johnson Sirleaf (Brinkerhoff 2007: 29-30).

Whatever solution international actors propose, this will in all cases lead to new policy dilemmas. Paris and Sisk (2007) refer in this context to the existence of fundamental tensions and contradictions for external actors, including the ambition of *external* actors to build up *local* administrations and the political role which external actors then, by definition, fulfil. They conclude that these are “true dilemmas that cannot be solved in any sense” and that external actors should set themselves the goal of managing these dilemmas more effectively. Consequently, the choices for a heavier or lighter footprint and a shorter or longer presence each bring their own challenges. In the case of a lighter footprint, as in the DRC, the room for manoeuvre for local actors is greater, and this begs the question of whether an interim government in which warring parties participate can provide a sufficient basis for additional reforms. In the event of an external party taking (temporary) administrative responsibility, as in Kosovo, it is inevitable that international actors become part of a political conflict, and there is then the risk of local actors not taking their responsibility and of becoming dependent on the temporary administration. In addition, in many countries, taking over administrative responsibility is not regarded as a practical option in view of the international community’s current capacities. An international administration like that in Kosovo is mission impossible in the DRC. In such cases, the emphasis would have to be on promoting local capacity, with the preference being for a light footprint and as much local ‘ownership’ of the process as possible while being able, in certain situations, to exercise a certain amount of strategic pressure or control.

### 13.5 CONCLUSION

Ending war and building peace are two related but fundamentally different objectives. It should be regarded as positive that international ambitions extend beyond the first objective and include anchoring security and building peace. In recent decades, however, it has become clear that while the objective of ending war has been reasonably successful, the ambition to anchor peace permanently through a wide range of reforms has met with serious obstacles. These “transition blues” have been felt both in countries which were originally regarded as success stories and in others in which the international community had invested a great deal.<sup>10</sup> That led to a discussion of the question of what can be considered realistic objectives for international actors. In that respect, a number of lessons can be learned.

Peace-building ambitions are based largely on the idea that a sustainable peace is a liberal peace, as is seen to exist in the West. In terms of policy practice, the strategic objective is therefore the liberalization of politics and the economy. This idea also lies at the basis of the peace-building models which entail a wide range of social reforms. These models rightly assume that the problems encountered in post-war societies are both complex and interrelated, but are also subject to a number of limitations. A fundamental point of criticism is the question of whether the political and economic models of developed and peaceful countries ought to serve as an example for countries with a different level of development. There is every reason to take a critical look at the overly hasty liberalization of political and economic structures in these kinds of countries. What is more, general models do not provide a sufficient answer to the question of what ought to be done first in a certain context. Global ideas on the course of the social process – as depicted in the civilization hexagon devised by Senghaas – can fulfil an orientating function, although the point of departure ought to be the local political process of change and its possibilities and requirements. That is what *peace-building as politics* represents. This approach places the emphasis on context-specific strategies and priorities, with the strategic goal being the reinforcement of local political capacities and mechanisms for curtailing or ending violence. The approach enables peace-building ambitions to be adjusted with the aim of finding a middle way between the minimalist ideal of a negative peace and the maximalist ideal of a positive peace.

There is no standard package of measures that international actors ought to implement or, as Stedman (2002) says, “what is appropriate in one context may be inappropriate in another”. The international contribution to peace-building will be different in each country. The greatest challenge in this context is to find a match between the local problems and international and local capacities. The degree of consensus on the strategy to be implemented is also an important indicator of success. A peace agreement usually reflects only a basic and fragile local consen-

sus, shored up by the international community primarily through a military presence. The core task of the civil presence is to continue building on this and to reinforce the political mechanisms of conflict-solving and consensus-building in the society concerned. The greater the consensus of local actors as regards the future social order and the greater the consensus of international actors regarding the strategy to be pursued, the greater the chance of success.

The most difficult cases of international peace-building can be found in countries in which there is not only a weak local consensus, but also a weak state and a diversity of mutually competitive local institutions. In these complex environments, intervention by the international community is even more urgently required although, at the same time, the room to manoeuvre is smaller than in less complex environments. The international community is then confronted acutely by its own limitations as regards consensus-building and coordination and the restrictions that hamper the building of local political structures. After all, a larger international presence exacerbates the problems relating to strategic coordination between international actors. At the same time, in a country with a weak and divided local institutional structure, the international footprint on the local peace process will be larger. That footprint may then become a tremendous burden for the international actors. Paris and Sisk (2007) rightly state that international intervention in post-war societies leads to inevitable dilemmas which can, at best, be managed. Those dilemmas will be greatest in complex situations.

Local political structures and mechanisms for solving conflict in a non-violent manner will be strengthened differently in each context. Most processes of peace-building implicitly assume a gradual intensification of democracy and the possibility to simultaneously reinforce state structures and democratic mechanisms. This is reflected by the increasing focus of bilateral donors on the state (in particular, the security sector) and state fragility. This strategy ought to be as flexible as possible and be applied creatively, with the choices depending on local political relationships and the capacity of international actors at the local level. Particularly in the most complex cases, implementation of these reforms will not be straightforward, and the aim will be to find a balance between the introduction of political systems and mechanisms and continuing to manage this process of change at the local and national level. Democratization and state-building, as well as economic reforms and the return of refugees, can result in new tensions and put pressure on the peace process. This does not necessarily mean that these objectives have to be abandoned, but rather that the focus of international actors is shifted to helping to manage these kinds of processes.

The strategic objective of peace-building to help reinforce local political capacities and mechanisms in order to settle conflicts in a non-violent manner means that, in practice, the focus of international efforts has to be on supervising and facilitating

political *processes*. There is a need for flexible international capacity so as to manage the tensions which transition processes create. That calls for realistic objectives, flexible forms of intervention and the capacity of external actors to control and adapt. The point of departure should be that social processes can only partially be controlled and societies only partially manipulated – certainly by external actors – and that the post-war “process of change” always turns out differently than was expected. A strategic international effort not only requires close coordination, but also flexible international organizations that are able to identify local changes, continually revise agendas and operate in networks.

## NOTES

- 1 I would like to thank Dirk Kruijt, Martijn Klem, Meike de Goede, Ralph Sprenkels and Yvette Nelen for their suggestions and valuable additions to earlier versions of this article. Special thanks go to Georg Frerks for his extensive comments. I am solely responsible for the final product.
- 2 See Paris (2004) and Easterley (2006: 322), respectively.
- 3 This distinction is based on Ramsbotham et al. (2006: chapter 8).
- 4 <http://www.aidharmonization.org/>.
- 5 <http://www.un.org/peace/peacebuilding/>.
- 6 See the discussion in the *Journal of Democracy* between, among others, Carothers (2007) and Mansfield and Snyder (2007).
- 7 Whereby, although some 'sequencing' is applied, the elections are not postponed for any longer than a couple of years.
- 8 Whereby it is acknowledged that democratization is a difficult process that can also result in hybrid systems and may also come to standstill (Carothers 2002).
- 9 Arguments in favour of more intrusive international intervention are put forward regularly. See Einsiedel and Malone (2006) for Haiti, Calderisi (2006) for Africa, and ICG (2004) for Sierra Leone and Liberia.
- 10 The term "transition blues" was coined by Ralph Sprenkels (2008).

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## 14 MIGRATION AND DEVELOPMENT: CONTESTED CONSEQUENCES

*Ronald Skeldon*

### 14.1 BACKGROUND

No country has moved to a high level of economic development unaccompanied by a redistribution of its population to urban areas. The concentration of labour force in cities has been a fundamental and necessary part of modern patterns of development, and migration to towns and cities has been one of the integral components of this transformation. Yet the current debate on migration and development has not incorporated this redistribution of population into its deliberations. Rather, the debate has focused on the minority of people who move: those who have crossed an international border and who are estimated to represent about 3 per cent of the world's population, or some 191 million people in 2005 (United Nations 2006a). The majority of books on migration today focus only on the international movements of population. The arguably leading organization that deals with migration, the International Organization for Migration, looks primarily at international migration, and currently the leading forum where migration and development are discussed, the Global Forum on Migration and Development, deals only with international migration.

In many ways, migration has come to mean 'international migration'. However, many more people have moved internally in China and India alone than have moved internationally at the global level. Thus, hundreds of millions of people moving domestically around the world have been excluded from the discussions on migration and development despite the fact that we know that such movements are essential for development. The reasons for this apparent anomaly are clear. Internal migrations are the concern of individual sovereign states, and states fear that the inclusion of internal migration into the debate might lead to an interference in their internal affairs. International migration is different from internal migration. The crossing of an international border introduces issues that can only be discussed at bilateral and multilateral levels.

International migration is an issue that involves at least two states, origin and destination, and possibly also states of transit. States of destination fear that migration from poorer countries is overwhelming their legal channels of migration, resulting in large numbers of 'irregular' migrants or those living and working within their economies illegally. States of origin, on the other hand, view much of the outmigration from their borders as the result of the 'poaching' of the best and brightest elements of their populations, a loss that will prejudice their hopes of

development. The debate is often polarized between developed destination economies in the so-called North and developing countries in the South. However, as will become apparent from arguments in this chapter, the exclusion of internal migration from the debate has seriously weakened any comprehensive approach to the issue of migration and development.

International migration was originally seen as essentially a consequence of a lack of development in the South. Although an element of truth exists in this point of view to the extent that people tend to migrate from relatively poorer areas towards relatively richer areas, it is an unsatisfactory explanation. The international flows of people are highly complex, and the results of research into the topic over the last decades have shown that a more nuanced approach to the issue is required. Moreover, the research revealed, first, that development in areas of origin did not slow outmigration; it often accelerated the movements. Second, the research revealed that not all the consequences of migration on areas of origin could be interpreted as negative. While the best-educated might leave a community, the migrants sent money back that could be used to improve conditions at home. The migrants might also learn skills when in destination areas that could later be put to good use if they returned. Lastly, it was observed that migrants regularly kept in contact with their home communities and that, if those ties could be channeled in certain directions, development of the home areas might be promoted. While negative consequences were still recognized, the view evolved that policy could promote the positive and reduce the negative aspects of migration: that migration could be 'managed' in the best interests of countries of origin, countries of destination as well as of the migrants themselves. Migration could be a positive force in development and a tool that could be managed to facilitate development. Elsewhere, I have raised what I think are some fundamental questions on this debate (Skeldon 2008), and this chapter will try to amplify and extend some of these concerns.

## 14.2 CONCEPTUAL ISSUES

Two important sets of problems are inherent in the current debate on 'migration and development'. The first is the general separation of 'migration' from 'development' implicit in the title of the debate. Migration is essentialized as something that can be extracted and managed separately to produce certain benefits for development. While the inter-linked nature of migration and development is clearly recognized in the use of the term 'nexus', for example (Nyberg-Sørensen et al. 2002), the impression conveyed is still of two identifiable phenomena interacting rather than of migration as an integral component of development itself (Skeldon 1997). Of course, migrants themselves can be separated into categories for analysis and policy formulation: labour migrants, settlers, students, asylum seekers, and so on. However, separating categories of migrants for analysis (or for entry into desti-

nation countries) is different from assuming that migration can in some way be separated and managed in certain ways.

Nevertheless, we could separate labour migrants from the developing world, for example, as a category to be managed and argue that by increasing their volume to an equivalent of just 3 per cent of the labour force of developed economies, a virtual doubling of remittances to the developing world would result (Winters et al. 2002). However, developed economies will want to recruit labour on the basis of its quality in terms of skill, language ability and so on, which itself is a function of the level of development of the area of origin. More important, the demand for labour in the developed world is predicated upon sustained economic growth in these areas. Recent events reinforce the fact that the cyclical nature of economies and the downturn in the US economy appear to be reflected in a slowing in border crossings from Mexico and a year-on-year decline of 2.9 per cent in remittances to the first quarter of 2008.<sup>1</sup> That is, the economy underlies the migration, and to attempt to manage migration without taking this into account would seem to be a prescription for policy failure. This is not to conclude that the 'management' of migration is an unrealistic goal. However, the limits of any such programme, as well as a shift in direction, need to be appreciated.

The second set of conceptual problems revolves around the meaning of 'development' itself. While the general idea of development is intuitively understood, that human welfare is improving, just how this should be measured is not so clear. Even less clear is just what policies should be implemented in order to achieve an improvement in human welfare. Economic growth is fundamental to the process, but development is more than simply economic growth. Distribution of the proceeds of growth throughout society and improvements in health, education and gender relations are all parts of any trajectory that could be termed 'development'. At the turn of the millennium, the international community came to a consensus around eight Millennium Development Goals (MDGs) as a means of achieving development through the elimination of poverty. These were "a compact among nations to end human poverty" (UNDP 2003), thus making the reduction and ultimate elimination of poverty the most important dimension of development. The specific targets set in the MDGs were to halve the proportion of people (in any country) living on less than \$ 1 a day and to halve the proportion of people suffering from hunger between 1990 and 2015. Hence, a central part of any debate on migration and development needs to examine whether migration can be managed in order to help to reduce poverty in these ways (Skeldon 2002, 2005).

To support the achievement of this first goal to reduce poverty, other MDGs aimed to achieve universal primary education; to promote gender equality and empowerment of women; to reduce infant mortality; to improve maternal health; and to combat HIV/AIDS, malaria and other diseases (UNDP 2003). The last two of the

eight goals aimed to ensure environmental sustainability and to develop a global partnership for development. Comprehensive though these goals were, they were the ones around which an international consensus could be achieved. More sensitive issues such as the nature of the economic systems that might be best placed to achieve any reduction in poverty, let alone political development, were not part of the discussion.

All of these MDGs have implications for migration. For example, in order to achieve universal primary education, it is unlikely that a school can be built and staffed in every human settlement. At best, schools can be provided within relatively easy walking distance but, and perhaps more relevant to secondary than primary education, children may have to spend the week or longer at central points where schools can be provided and adequately staffed. An improvement in access to education implies a widening of spatial patterns of mobility that exposes children to a wider world. Just as important, once an investment has been made by families to give their children education, many will have to move further afield to gain a return on that investment. Hence, development policies to improve education from the primary level on upwards will have profound implications for human migration. So, too, will programmes to improve health, albeit in different ways. Before we proceed to look at how migration has been seen to contribute to development, a brief overview of global patterns of international migration is required.

### 14.3 PATTERNS OF MIGRATION

The common impression of global migration is that it is primarily from the poorer developing world, commonly referred to as “the South”, towards the rich countries of the developed world, commonly referred to as “the North”. Despite deficiencies in the data, and using World Bank definitions of regions, an analysis of global origin-destination flows suggests that South-North flows around the year 2000 accounted for 37 per cent of global international migration. South-South flows accounted for another 24 per cent and flows within the global North for 16 per cent, with North to South flows accounting for the balance of 23 per cent (Parsons et al. 2007: 37). Thus, flows originating in countries of the North accounted for almost two in five international migrants. A slightly earlier UN assessment placed the number of South-South migrants at about the same as the number of South-North migrants, although the number going to the North appeared to have increased faster than those who had moved in and to the global South in the last half of the 1990s (United Nations 2006a, 2006b). Excluded from these South-South flows, simply because accurate data did not exist, were the growing migrations from China into sub-Saharan Africa. For example, it was likely that there were some 100,000 Chinese in Ghana alone in mid-2008.<sup>2</sup>

**Table 14.1** Percentage of world migrants recorded as a bilateral movement between pairs of countries/regions (%)

Countries/regions of origin	Destination countries/regions												
	USA	Canada	EU15 + EFTA	Australia + New Zealand	Japan	High income MENA	LAC	ECA	MENA	AFR	EAP	SAS	Total
USA	0	0.16	0.34	0.04	0.02	0.03	0.43	0.04	0.05	0.03	0.15	0.02	1.29
Canada	0.54	0	0.10	0.02	0.00	0.01	0.02	0.01	0.00	0.01	0.01	0.01	0.74
EU15+EFTA	2.22	0.98	5.59	1.13	0.01	0.14	0.68	0.78	0.16	0.39	0.20	0.19	12.47
Australia+New Zealand	0.06	0.02	0.16	0.23	0.00	0.00	0.00	0.01	0.00	0.01	0.03	0.01	0.55
Japan	0.28	0.02	0.06	0.02	0	0.00	0.04	0.01	0.00	0.01	0.03	0.01	0.50
High income MENA	0.10	0.03	0.06	0.01	0.00	0.12	0.00	0.02	0.00	0.00	0.05	0.01	1.14
LAC	10.22	0.36	1.45	0.05	0.13	0.10	2.07	0.17	0.08	0.14	0.14	0.25	15.15
ECA	1.25	0.39	4.75	0.26	0.00	0.92	0.07	16.98	0.33	0.34	0.18	0.41	25.88
MENA	0.47	0.17	2.85	0.10	0.00	1.49	0.04	0.16	1.79	0.28	0.05	0.12	7.52
AFR	0.41	0.12	1.58	0.10	0.00	0.25	0.02	0.11	0.18	7.00	0.03	0.16	9.97
EAP	3.32	0.71	1.09	0.63	0.54	0.48	0.06	0.14	0.14	0.09	3.86	0.27	11.32
SAS	0.83	0.31	1.13	0.12	0.01	2.66	0.02	0.13	2.07	0.14	0.37	5.67	13.46
Total	1971	3.25	19.14	2.72	0.74	6.22	3.45	18.56	5.53	8.44	5.10	7.15	100

Note: 'EU 15 + EFTA' includes Switzerland

EU European Union  
 EFTA European Free Trade Area  
 MENA Middle East and North Africa  
 LAC Latin America and the Caribbean  
 ECA Europe and Central Asia  
 AFR Sub-Saharan Africa  
 EAP East Asia and the Pacific  
 SAS South Asia

The poorest region, sub-Saharan Africa, accounted for just under 10 per cent of the number of global international migrants. However, fully 70 per cent of these moved within the region, compared with 42 per cent of South Asians moving within their region of birth, 34 per cent of East Asians and 14 per cent of Latin Americans (Parsons et al. 2007: 36). Although the proportion of international migrants from sub-Saharan Africa is consistent with its total population, the vast majority moved within sub-Saharan Africa itself and primarily among neighbouring countries. Conversely, in the early years of the 21<sup>st</sup> century, sub-Saharan Africans were relatively under-represented in other major regions of the world and were still moving regionally compared with migrants from the other main parts of the developing world. Given that the majority of the poorest countries of the world, even if not the largest numbers of the world's poor, are in sub-Saharan Africa, the macro data suggest, simply on the basis of numbers alone, that the potential for international migration to influence development significantly may be limited.

These data from the macro level, for all their limitations, suggest parallels with findings from micro-level studies of internal migration: that the poorest migrants move mainly locally, and often short-term, while wealthier groups move further afield, and often longer term (Skeldon 1990; Connell et al. 1976). Development itself seems to bring about an acceleration of migration from poorer developing economies although no neat correlation or transitions necessarily exist. The reasons are clear. As wealth increases, more people have the resources to move. As education levels increase, more people become aware of opportunities open to them outside their communities and countries of birth and, at the same time, have the skills necessary to take advantage of those opportunities, even though these skills may be quite basic.

However, even though other regions of the developing world are participating more in global systems of migration than sub-Saharan Africa, the potential for international migration to alleviate poverty may be less than at first thought. Migration in general, and international migration in particular, tends to have very localized origins within the country of origin. For example, some 95 per cent of migrants from Bangladesh to the United Kingdom to the late 1980s came from Sylhet (Gardner 1995), and the overwhelming majority of migrants from Pakistan to the United Kingdom came from the district of Mirpur (Ballard 1987: 24). Also in Pakistan, the rain-fed agricultural regions of North-West Frontier Province, the upper Punjab and Azad Kashmir appear to have supplied more unskilled workers to the Middle East than other parts of the country such as Sindh, the lower Punjab or Baluchistan (Gazdar 2005: 241). Much of the migration from India to the Middle East has been from the southern state of Kerala (Zachariah, Mathew and Rajan 2003), and migration from China has been dominated by three southern coastal provinces, Guangdong, Fujian and Zhejiang, and by very specific parts of those



provinces. The origins of international migration are highly concentrated in any country, with large parts of many countries of origin not participating in international movements at all.

The fact that some areas in countries of origin generate many more international migrants than others does not mean that the migration has no impact on other parts of the country. International migration can have indirect impacts through creating vacuums in local labour markets, a stock of vacant housing, and unused or underused agricultural land in rural areas and a pool of capital from remittances that can be used to employ labour. These, in various combinations, can attract immigration from surrounding areas, which shows how international migration can give rise to later internal population movements and how international and internal migration systems are linked. Linkages between the two types of migration, international and internal, can occur in a variety of other ways. See Skeldon (2006) for examples from Asian economies, and King, Skeldon and Vullnetari (2008) for a broader discussion. These interlinkages further reinforce the need to introduce internal migration into the migration and development debate.

The discussions of international migration presented above imply that looking at origin-destination flows in terms of inter-state flows is insufficient and that the debate on migration and development needs to take into consideration the specific origins of the migration. However, it is not simply the countries of origins of migration that demonstrate the significance of localization, but also the countries of destination. The 2001 census showed that the foreign-born represented 27.1 per cent of the population of the Metropolitan London Area, which accounted for 40 per cent of the total foreign-born population in the UK (MPI 2008). The second most important concentration of the foreign-born in the UK was the West Midlands, which contains the city of Birmingham, with 13.9 per cent of its population foreign-born. Although migrants are found throughout the UK, they do tend to cluster in particular urban and rural areas, and especially in the capital, London. The flows of international migrants are from localized origins to localized destinations, and this has profound implications for development that are not widely appreciated.

The impact of international migration on the development of the destination areas is again not part of the current debate on migration and development, which is focused, perhaps correctly, on the developing world. Nor is a chapter in this book the place to pursue this dimension of an issue that is highly contested both politically and academically. However, it is useful to raise one point that has a bearing on the developing world. The driving force for much of current international migration lies in the nature of the development of the more developed parts of the world, and particularly the types and rates of their economic growth. These are mediated through demographic structures that ultimately will have a major

impact on the volume and direction of the migration flows. One of the very few universal generalizations that we can make about migration is that most migrants tend to be young adults; hence, the number of migrants is a function of the number of young adults. This does not mean that migration is necessarily demographically determined but that the age structure of any population is a key factor in both the supply of and the demand for migrants. The ageing populations of Europe, with declining labour forces, a projected decline of a quarter between 1995 and 2050 (United Nations 2001: 89), is the most obvious example of the growing demand for labour in certain sectors. However, shifts in age structures in supply areas, too, are part of the equation, particularly in eastern Europe, but with the rapid ageing of populations in East Asia, the patterns of global demand for labour may shift.

#### 14.4 APPROACHES TO MIGRATION AND DEVELOPMENT

The current debate on migration and development has focused around three themes: remittances, brain drain and diaspora. From the earlier discussions on the definitions of development and the patterns of migration, it has been suggested that the state is not a sufficient unit for the examination of the impact of migration upon development and that the debate must be seen in this context.

##### REMITTANCES

The global volume of remittances to developing countries in 2007 is estimated to have been \$ 251 billion, up by 11 per cent from 2006 and more than double the amount of 2002 (Ratha et al. 2008). In 2007, only \$ 12 billion, or 4.8 per cent of the total amount of remittances, were estimated to flow to sub-Saharan Africa, while virtually one-quarter, or \$ 61 billion, flowed to Latin America. The latter figure was affected by a decline in remittances to Mexico, noted earlier in the chapter. Mexico, however, remained the most important single recipient of remittances at \$ 25 billion in 2007, followed by the Philippines at \$ 17.2 billion (Ratha et al. 2008).

These impressive financial flows, which dwarf official aid at a global level, give the impression that they can be a powerful tool to promote development and have been at the heart of the migration and development debate (see Maimbo and Ratha 2005). There is evidence that they can play a role in poverty reduction in certain areas, particularly where the impact of migration has been large and localized. For example, the massive labour migration from the Indian state of Kerala to the countries of the Gulf generated about US\$ 3 billion in remittances in 2000 and contributed to a 12 per cent reduction in poverty across the state (Zachariah, Mathew and Rajan 2003). Their impact on poverty alleviation on small island economies also appears to have been largely positive, particularly in the smallest economies with long traditions of migration (Brown and Jimenez 2008).

However, evidence of their impact on larger economies is more ambivalent. For example, detailed analyses of data on remittances to a number of Latin American countries showed that they “appear to lower poverty levels in recipient countries” (Acosta, Fajnzylber and Lopez 2007). However, their impact had been “modest” and varied by country. These studies are important as they examined the impact of remittances against the counterfactual of what would have happened if the migrants had stayed at home to make a contribution to the household economy. Ignoring this dimension tended to exaggerate the impact that the remittances actually had. The authors of these studies also examined the impact of remittances on the education levels of children and on the health status of the household populations. “Once again the positive development impact of remittances must be qualified” (Acosta, Fajnzylber and Lopez 2007: 96), and clear evidence of positive associations was apparent in only a few specific cases, one of which was Guatemala.

The surveys used were national in scope and, given the localized nature of migrant origins, may have missed significant local and regional effects of migration and remittances. Nevertheless, the data urge a degree of caution about the notion that remittances can significantly help to achieve some of the MDGs. Data from Guatemala offered more hope in this direction, although the study demonstrated that the results depended upon how poverty was measured (Adams 2006). Taking a simple headcount measure, the impact of remittances was either negligible or even negative, while adopting an index that measured the severity of poverty showed that remittances could help to reduce poverty by over 20 per cent. The study also showed that, contrary to many assumptions, households receiving remittances spent proportionately less on consumption goods than households that did not.

More cautionary data emerge from Peru. There, virtually 82 per cent of households receiving remittances from international sources were in the more developed coastal areas rather than in the poorer Sierra, with fully 57 per cent of households located in the capital, Metropolitan Lima (OIM 2008). The immediate effect of remittances is likely to reinforce or increase inequalities between rural and urban areas, which is likely to generate yet further migration to the towns and cities. Existing work suggests that those engaging in international migration from Peru are from the middle and lower-middle classes and not the poor (see the essays in Berg and Paerregaard 2005). A study in Guatemala differentiated between remittances from internal and international sources. Across the sample, fully 77.8 per cent of households did not receive remittances, 14.6 per cent received remittances from internal sources, and 8.1 per cent received remittances from the United States (Adams 2006: 55). The greater proportion of households receiving remittances from internal sources once again emphasizes the need to incorporate internal migration into the debate on migration and development.

One complexity of remittances from both internal and international sources is that the assumption is made that they flow solely, or primarily, from the destinations to the origins of migration. The issue of “reverse remittances” has not been part of the current debate, yet it has been known for some time that flows back from villages to towns could be an important part of rural and urban transactions (see Connell et al. 1976: 101-102). A study of internal remittance flows in South Korea during that country’s rapid urbanization from the 1960s has shown that the net flow of remittances was in favour of towns rather than villages (Mobrand 2007). Money to support students in education in towns, where the quality of teaching was seen to be higher than in rural areas, or to tide migrants through until they became established in the city, or to pay for tickets from urban-based agencies to fund the migration itself were all uses for these reverse flows. The extent to which remittances from international sources are used to fund further migration, perhaps also to pay smugglers or traffickers to support irregular movements, is not known.

All this is not to suggest that remittance flows back to origins are not the most important component but to draw attention to the fact that, like migration itself, remittance flows are two-way. However, the evidence from Peru and Korea suggests that the benefits are flowing primarily to urban areas, with the wider evidence from Latin America indicating a fairly modest impact on poverty alleviation and on other variables closely linked with the MDGs. The impact on economic growth also appears to be ambivalent. Despite the volume of remittances received by Kerala, that state has not experienced a parallel increase in economic growth, actually declining in rank by gross state domestic product relative to other states in India between 1980 and 1998 (Sachs, Bajpai and Ramiah 2001). Remittances may lock certain populations into a dependence upon further migration. Thus, unlike aid, or official development assistance, which can be targeted at particular groups and specifically towards the eradication of poverty, remittances are flows of an entirely different nature. They are focused on the specific areas of origin of migration that might involve neither the poorest areas nor the poorest people within those areas.

### **SKILLED MIGRATION AND BRAIN DRAIN**

A second major concern in the migration and development debate has been that the developed countries are attracting the best and the brightest people from the developing world and draining countries of origin of the talent required to bring about their development: the so-called “brain drain”. However, the situation is not quite as simple as is often made out.<sup>3</sup> Again, the specific origins of the highly skilled need to be taken into consideration. At the macro level, the origins of the skilled are dominated by the developed countries themselves, together with a relatively small number of middle-income developing economies such as China,

India, Mexico and the Philippines (Docquier and Marfouk 2006). This pattern is entirely logical as it is only among the larger and more developed economies that the infrastructure is found to generate the highly skilled in the first place. The poorest and smallest economies do not have either the trainers or the number of tertiary institutions to produce significant numbers of skilled migrants.

It can be argued that the absolute numbers of skilled are not the issue but the proportion of the skilled that have left from any country, and small island economies are particularly affected in this way. Small island countries have several characteristics that leave them vulnerable in the global community. Their small populations and labour forces make it virtually impossible to develop the whole range of skills and specialisms that are required for a developed economy. Specialist skills from air traffic control through hotel management to policing often have to be imported. Quite apart from their small size, many are in distant and marginal locations, and many, too, are vulnerable to environmental “shocks” including vulcanism, typhoons or hurricanes, as well as more gradual rises in sea level. The loss of skilled manpower is but one problem among many in these special cases.

Nevertheless, questions can be raised concerning the migration from small island economies that can be applied more generally. The first refers to place of training. The data that we have concerning the migration of the skilled refer to level of education by country of birth (for example, Docquier and Marfouk 2006). The data give no indication where that training was obtained, and it is known that many migrated abroad specifically to further their education. Of the 750 Egyptian-born physicians practising in Canada in 2001, only 195 had been trained in Egypt, for example (Clemens 2007: 16). Other estimates suggest that 55 per cent of skilled migrants from Latin America and the Caribbean employed in the US were trained in the US. Over 40 per cent of the skilled in the US from China and India had received their college degrees in the US (United Nations, 2006a: 60), and some 68 per cent of the foreign-born scientists conducting research in the US in 1999 had been trained in the US (Johnson 2003: 6). Even if basic training had been undertaken in the developing world, advanced training, even for students from countries with strong traditions of education such as India, might be completed in the developed world (Khadria 2003). Relevant here, too, is the funding for this training. The cost of training may indeed be borne by the state of origin, but it could also be funded through scholarships from another state, by a private grant-awarding body or by the student’s family. Education is becoming increasingly privatized, with the cost of education both at home and overseas being covered by the family. It has been shown that 60 per cent of foreign students in the US depended upon family or personal resources for their studies, a proportion that remained stable from 1979 to 2004 (Kritz 2006: 7). Of the balance, Kritz shows an increasing proportion paid by American universities, from less than 10 per cent in 1979 to 25 per cent in 2004, and for postgraduate studies only, American universities funded

almost 45 per cent of foreign students in 2004. As raised earlier, the possible role of remittances in funding advanced training needs further investigation. The data and points such as these raise interesting questions about the whole issue of compensation for states of origin for the loss of “their” skilled.

Further questions need to be raised about the impact of the loss of the skilled on the development of the states of origin. As seen in the earlier discussions, in terms of poverty, education and health, the places where most progress has to be made in order to achieve the MDGs are found in the rural sector, even if urban poverty is of growing importance. The skilled in general, but especially those in the medical profession, tend to come from elite, urban-based families. The counterfactual whether if they had stayed at home, the situation in the areas of greatest need would have improved does need to be raised, even if it can never be demonstrated. However, the critical issue relates to training and not to the emigration of the skilled. If people have been trained to global standards, they will participate in global markets; if people are trained for local markets, they will meet the basic needs of local populations. In Malawi, a country particularly affected by the exodus of doctors and nurses, one internationally supported project has shown that people recruited locally and trained locally for local health positions have higher retention rates than if outsiders are brought in (Tyson 2007). More generally, the exodus from the sector, particularly the public sector, is as important as any exodus from the country. For example, vacancies for some 32,000 nurses existed in the public sector in South Africa in 2001, while at the same time there were another 35,000 registered nurses inactive or unemployed within the country (OECD 2004).

Thus, negative consequences that can be directly attributed to the exodus of the skilled may be as elusive as the positive contributions to development that are brought by remittances. The migrations reflect the development problems in the areas of origin and neither cause nor resolve them. This point becomes clearer in the discussion of the third of the major areas in the migration and development debate, the diaspora.

## **DIASPORAS**

The diaspora brings together the flows of remittances and the flows of the skilled into the idea of a transnational field of resources that can be used, or “leveraged” (Kuznetsov 2006), for the development of the country of origin. It seems axiomatic that certain groups have indeed made major contributions to their areas of origin. The Overseas Chinese, the Viet Kieu and non-resident Indians have played and continue to play a significant role in the development of China, Vietnam and India, respectively. Nevertheless, in these particular cases, the country of origin is a strong “developmental” state where something exists for overseas

migrants to either invest in, or return to, if they so choose, as many have, to participate in the current rapid economic growth. It would be unreasonable to expect overseas migrants to participate in failed states and economies of origin and, on their own, to be able to promote development in home areas. They need to work within effective structures if they are to have an impact on their countries of origin.

Thus, it is the development of the state of origin that drives the contribution of the diaspora rather than the other way round. Nevertheless, this does not mean that returned migrants, either long-term or short-term, do not make significant contributions to that development. Many enter national civil services and parliaments, as well as taking senior positions in the private sector. For example, of the 45 members of the cabinet of Taiwan in 2006, 25 had completed advanced degrees outside Taiwan, mainly in the US but also in Japan, France and the UK. The returned skilled migrants bring new ideas and new ways of approaching problems, and the trend towards more open political systems in eastern Asia and the increasing return of migrants to these economies are surely more than just coincidental events. Numbers, however, are only part of the issue. The quality of a few exceptional individuals looms large in the contributions of the diaspora: of a Lee Kwan Yew, the father of modern Singapore, or an Andrew Carnegie, who used his wealth to promote literacy in his home country that almost certainly stimulated further emigration.

Lest this discussion on diaspora accord the primacy of migrant agency over structure, two cautionary points need to be made. First, the return, long-term or short-term, of migrants from the diaspora has to be set within the context of other population flows into these same economies: skilled migrants from other countries associated with transnational corporations, or the international recruitment of talent to take advantage of the development opportunities being offered. The flows of less skilled labour are also part of this process as the country goes through a demographic transition with the natural growth of its labour force slowing. Second, the diaspora itself is highly heterogeneous, and a temptation exists to essentialize it into a homogeneous entity that seeks to work for the development of the country of origin. Not all in the diaspora may seek to work in the best interest of governments in their country of origin but may actively seek to undermine political structures at home. Thus, diasporas have a "Janus face" (Kapur 2007) that may act to counter development. In both situations, positive and negative, the structure of institutions is critical. In the former case their strength makes it attractive for migrants to return to the economy to benefit from it: in the latter case, their weakness will allow destructive forces to prevail. Thus, the impact of the diaspora is likely to vary depending upon the very level of development of the economy of origin.

## 14.5 CONCLUSION

The above discussion shows that international migration can have impacts on development, either as it is defined narrowly under the MDGs, or more broadly. However, these impacts may not be as clear as is often assumed. The migration process is often excluded from the equation, and as shown in this chapter, the localized nature of origins will channel the direct impacts towards very specific areas and groups of people. These are unlikely to involve the poorest people or the areas most in need of development assistance. The wider and indirect effects are less well understood as the linkages between international and internal population movements are rarely considered. Whether migration as a process diffuses over time from initial origins towards remoter areas and poorer groups, as argued in Skeldon (1990), also remains unclear. However, should this be the case, the development impact will be variable depending on the progression through not just a demographic but also a mobility transition (Zelinsky 1971). Thus, placing studies of remittances, skilled migration or diasporas within the context of evolving migration systems may provide greater clarity on the likely impact that migration can have on development and resolve the differing interpretations found in the literature.

Two fundamental misunderstandings of the relationships between migration and development have been that migration has been caused by a lack of development and that the migration is in some way an aberrant form of behaviour and that migrants, given sufficient opportunity at home, will stay there. Migration does not cease with development. It has been argued that there is a “migration hump”: international migration increases with development until an economy reaches an as yet undefined point along a development transition and then declines (Martin, Martin and Weil 2006: 41). However, any such transition is more likely to apply to the relative balance between immigration and emigration rather than indicating that emigration slows or even ceases. One of the characteristics of open economies is the flows of population in and out of their borders, and developed economies such as the UK and the US are major countries of emigration as well as immigration. More specifically, the UK, according to World Bank estimates, had a greater absolute number of highly skilled emigrants outside its borders in 2000 than any other country at 1.44 million (Docquier and Marfouk 2006: 175). Other sources have estimated that some 5.5 million British citizens are abroad, representing some 9.2 per cent of the population (Sriskandarajah and Drew 2006). This percentage compares with the some 10 per cent of the populations of the Philippines and Mexico, seen as “classic” countries of emigration, that are estimated to be outside their respective countries. This does not mean that the types of migrants outside the UK are the same as those from the Philippines or Mexico but simply that migration does not cease with development: in many ways it reflects development and changes in nature over time. Poor isolated countries and areas



often have low rates of migration, whereas those actively participating in the global system are characterized by high levels of migration and mobility. Migration is one of the more obvious markers of globalization, although the number of migrants may ultimately fall as the fertility transition effectively reduces the number of young adults and the number of prospective source areas declines.

In this context, can migration be 'managed' in order to achieve some development goal? Given the multidimensional nature of migration, it seems unlikely that it can be easily manipulated, increased, decreased or changed in a direction to suit certain desired policy objectives. The history of internal migration policy is one of failure over all but the immediate short term (Skeldon 1990). The existence of international borders does introduce a filter that can act to control migration, but even here, a 'gap' between stated policy objectives and outcomes appears to be growing (Cornelius et al. 2004). However, the whole emphasis on 'management' and influencing migration may be misplaced. Rather, policy-makers should be examining the development policies that they wish to implement and then estimate what the implications for migration are likely to be. The arguments presented in this chapter argue for a 'migration impact statement' to be included in development policies. In this way, migration is not seen as being separate from development. Quite the reverse, migration is seen as an integral part of the outcome of development policy. Thus, development policy becomes the driver to be managed and migration the outcome, rather than the other way round. Plan for migration rather than plan migration. Migration is primarily a consequence of development, no matter how defined, and migration policy becomes essentially accommodationist rather than directive. In this way, a greater coherence between migration and development policies is more likely to be achieved.

## NOTES

- 1 Data attributed to Goldman Sachs, cited in *The Economist*, 28 June 2008: 36, but the World Bank estimates a decline of 2.6 per cent, January to May 2008, over the same period in 2007 (Ratha et al. 2008).
- 2 Director General, Ghana Immigration Service, Personal Communication, September 2008.
- 3 Aspects of the discussion are developed in much more detail, particularly with regard to the health sector, in Skeldon, forthcoming 2008.

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## 15 GLOBAL JUSTICE AND THE STATE

*Pieter Pekelharing*

This article has three aims. First, it explains the rise of the concern for global justice and the idea that it is possible to influence the worldwide pattern of distribution and end poverty. Second, it sketches a brief history of the concept of ‘distributive justice’,<sup>1</sup> highlighting the role of the state as the agent of distributive justice and the difficulties that arise in extending the concept of distributive justice into the global realm. Third, it connects problems of distributive justice to problems of economic growth, capturing the political choices to be made in a trilemma derived from the development economist Dani Rodrik (2007).

### 15.1 THE RISE OF THE CONCERN FOR GLOBAL JUSTICE

#### THE RISE OF INEQUALITY

Do we live in an unjust world? If you take the horrendous figures on world poverty and growing income inequalities, the answer, overwhelmingly, seems yes. Nearly half of mankind – around 44 per cent – lives below the World Bank’s \$ 2 per day international poverty line. And a little under a quarter of the world lives in “extreme poverty”, which the World Bank defines as living on less than \$ 1 per day. Each day, according to UNICEF, 30,000 children die of hunger, disease and other consequences of poverty. Destitution remains a central fact of 21<sup>st</sup>-century life. Meanwhile, the world’s five hundred wealthiest people have the same income as the world’s poorest 416 million.

Inequalities haven’t always been as sharp as this. There was a time when things seemed to be getting better. After decolonization, from the end of Second World War until the 1980s, the developing countries, including Africa and the Middle East, showed a modicum of economic growth. Then, beginning in the 1980s, income inequalities everywhere skyrocketed. The real incomes of the poorest 5 per cent of the world population declined 20 per cent during the 1988-1993 period and another 23 per cent during the 1993-1998 period, even while real global per capita income rose 5.2 per cent and 4.8 per cent respectively (Milanovic 2005: 108). Apart from the East Asian countries, growth in the developing world ground to a halt. In a short span of time, the distance between the richest and the poorest countries more than doubled (Amsden 2007). Today, in around 50 failed states, the world’s poorest people face a tragedy that seems to be growing inexorably worse (Collier 2007).

**EMBEDDED LIBERALISM**

Until the Second World War few cared about inequalities beyond the borders of states. They weren't anyone's responsibility. There were no figures or charts, no graphs showing how international or global inequalities went either up or down over time. People were concerned about national forms of justice, they cared about stability in the international order, but there was nobody who thought that ideas about distributive justice, developed within the confines of the state, could be applied to the global order as a whole. International society was a lonely place. States were the only actors in the international arena, and their main concern was the prevention of war and the maintenance of peace. Of course there were agencies like the churches who were concerned about the plight of the poor, but the churches never approached inequalities in the global order from an egalitarian point of view.

After the war, two concerns became prominent in the capitalist world: how to avoid the catastrophic conditions that had threatened the capitalist order in the great slump of the 1930s, and how to prevent the re-emergence of inter-state geopolitical rivalries that had led to the war. States focused on full employment, economic growth, and the welfare of their citizens. It was accepted that the state deployed its power alongside of or, if necessary, intervened in or even substituted for market processes in order to achieve these ends (Harvey 2005). In the international order the International Monetary fund (IMF) and World Bank, formed at Bretton Woods in 1944, and the United Nations, founded in San Francisco in 1945, were set up to stabilize international relations and promote economic growth.

This type of political-economic organization is now often referred to as "embedded liberalism" (Ruggie 1994; Evans 1995). The term is used to signal how market processes and entrepreneurial and corporate activities were surrounded by a web of social and political constraints and a regulatory environment that sometimes restrained but in other instances led the way in economic and industrial strategy. State-led planning and in some instances state ownership of key sectors of the economy were not uncommon. "Embedded liberalism" seemed the West's best response to the communist threat and created forms of capitalism that proved to be compatible with the ideals of social justice developed since the war.

The distinctive feature of the Western approach to the Third World in this period was that developing countries could deviate from the principles of free trade and were allowed to build the modern industries they needed in order to trade at all. On the whole, countries in the Third World were allowed to follow their own development paths, as long as they stayed clear of communism. The results were moderate to impressive rates of growth for many countries in the Third World (Amsden 2007: 6).



### **DISEMBEDDED LIBERALISM**

From the 1970s onwards, this approach to development changed. Both internationally and within domestic economies, the combination of trade, protectionism and welfare capitalism known as “embedded liberalism” began to break down. The Bretton Woods system collapsed, unemployment and inflation surged, and Keynesian policies no longer seemed to work.

At the end of the 1970s, and especially during the reign of Margaret Thatcher and Ronald Reagan, a consensus emerged among Western leaders as to how to run the economy. This consensus came to be known as the “Washington consensus”. Through organizations like the World Bank, the IMF and the WTO, the same rules, laws, and institutions were now imposed on all countries, irrespective of their level of development and often to the detriment of the lower classes. Free trade, small government, lower taxes, and financial openness became the universal formula for economic development. On the political front, developing countries were encouraged to become electoral democracies as soon as possible.

After the fall of the Berlin Wall in 1989, when communism collapsed and capitalism emerged triumphant, this one-size-fits-all approach dominated the scene. In the Third World the liberalization of the economy led to sharply inequitable forms of economic growth and various financial crises, first in Mexico in 1994, then in South East Asia in 1997 and finally in Argentina in 1999.

On the political front the push towards liberalization often led to unstable forms of democracy. At present, democracy has come to a halt in a number of key states, including Nigeria, Russia, Thailand, Venezuela and, most recently, Bangladesh and the Philippines. Even in many of the countries that were once seen as success stories, such as Chile, Ghana, Poland and South Africa, there are now serious problems of governance and deep pockets of dissatisfaction. In South Asia, India is surrounded by politically unstable, undemocratic regimes. And aspirations for democratic progress have been thwarted everywhere in the Arab world. In many countries electoral democracies have been unable to effectively contain crime and corruption. They did not necessarily pave the way to economic growth, nor did they meet their citizens’ expectations for freedom, justice and a fairer society (cf. Diamond 2008).

### **A POLITICAL TRILEMMA AND THE CONCERN FOR GLOBAL JUSTICE**

With the exploding growth of globalized production networks, the high levels of intra-firm trade, and the continuing integration of capital markets on a global scale, governments in the 1980s began to create and experiment with various international and supranational governance regimes, which were allowed to take

over some of the functions of market control that had traditionally devolved upon states. During this period a host of new actors appeared in the international arena. From the IMF to the WTO, from large transnational firms to NGOs, from human rights movements to aid agencies, these actors working beside, above or below the state (Slaughter 2004) powerfully influenced the domestic life of national societies and began to form what observers called an “international civil society” (Kaldor 2003; Ruggie 2004).

Together these developments confronted states with a series of choices that can be captured in the form of a political trilemma. The trilemma may be sketched as follows: on the one hand, there is the traditional regime of the nation-state; on the other, there is the regime of the world market; and located in between are the forces of mass politics, manifested by the rise of diverse social movements concerned about the forces of globalization. The development economist Dani Rodrik pictures the choices in the trilemma as follows:

“If we want true international economic integration [into the world market], we have to go either with the nation-state, in which case the domain of national politics will have to be significantly restricted, or else with mass [participatory] politics, in which case we will have to give up the nation-state in favour of global federalism. If we want highly participatory political regimes, we have to choose between the nation-state and international economic integration. If we want to keep the nation-state, we have to choose between mass politics and international economic integration.” (Rodrik 2007: 200)

Looking back through the lenses of trilemma, we can see how adherents of the Washington consensus firmly chose for the option of the nation-state and the world market, at the cost of mass or participatory politics. In the US this has led to what economist Robert Reich called the “corporate takeover in politics” and a shift in power from the citizen to the consumer (Reich 2007; cf. Galbraith 2008).

The politics of the Golden Straitjacket, however, have always been hotly contested. By citizens’ groups and workers’ movements proposing forms of globalization which left more room for participatory politics, or by various national leaders, particularly from Asia, who refused to integrate into the world market according to the neoliberal rules of the game.<sup>2</sup>

It is in the wake of these contests that the discussion shifted from concerns about “international justice” to “global justice”. Adherents of international justice tend to focus solely on issues of war, peace, and stability. They take the existence of the nation-state for granted and aim for stability between states. Adherents of global justice, however, fix their eyes on the pattern of distribution of fundamental goods and rights within the world as a whole, opting for the ideal of “justice

beyond borders” (Caney 2005) or “justice without borders” (Tan 2004). They have settled their hope on the “international community”, seeking to harness it with the powers and policy tools enabling it to oversee and monitor the global pattern of distribution.

### JUSTICE OR CHARITY?

A few years ago the *Economist* (2004) took up the issue of global justice in an editorial. It agreed with its opponents – then called the “anti-globalists” – that hundreds of millions of people in the world were forced to endure lives of abject poverty. But it was quick to point out that the champions of the world’s poor were “wrong to suppose (...) that the rich enjoy their privileges at the expense of the poor and that poverty, in other words, is inseparable from a system, capitalism, that thrives on injustice”. The toll of global poverty was a scandal, but deploring economic injustice was no answer.

By thus appealing to charity instead of justice and by defending the capitalistic world order as the poor’s best hope, the *Economist*’s editorial throws into sharp relief five sets of questions that need to be answered if one wants to understand the issues thrown up by the trilemma and the complex set of relations between national, international, and global justice. They may be summarized as follows:

1. Why has the issue of distributive justice remained a national issue, and why do international or global forms of inequality seem to fall outside its scope? Why justice at home and charity abroad? Why not promote equality as a global ideal?
2. What, in that respect, is so special about our fellow countrymen (Goodin 2008)? Is there anything normatively peculiar about the state, and what remains of this peculiarity if one agrees that the distinction between the national and the international realm has been deeply eroded by the forces of globalization?
3. Granted that it’s possible to justify the existence of the state to our fellow nationals, can its existence be justified to those excluded by it, e.g. to foreigners or migrants? To what extent may the state unilaterally control its own borders? Would it be better to live in a borderless world?
4. What role does the state play in achieving economic growth? Have its powers to do so been diminished by the forces of globalization?
5. Does the global order, i.e. ‘capitalism’ or the ‘world market’, indeed harm the poor and, if so, what can be done about it? Is philanthropy enough or should there be structural change?<sup>3</sup>

Nearly all of these questions are of a normative nature. They ask us to take a stand on justice and its scope. They bring up the issue of capitalism and its effects on the poor, and they ask whether charity is enough. Together they highlight the impor-

tance of the state: why has it become the site of distributive justice, and should this remain so?

I will not attempt to answer these questions one after another but deal with them in the appropriate context. My first concern is to get a better grip on the history of the normative connections between justice, equality, the state, and what you might call the ‘modern attitude’ towards the poor. Then I will discuss attempts to extend the concept of justice into the international realm, focussing on the differences that have come up between national, international, and global forms of justice. After having reviewed two important modern approaches to these issues – the communitarian and the cosmopolitan approach – I will focus on the work of the philosopher John Rawls, who is still the most important theorist on issues of justice. In the conclusion, I will try to show how Rawls approach to the issue of justice has surprisingly much in common with recent approaches to economic development.

## 15.2 THE BIRTH OF THE NOTION OF DISTRIBUTIVE JUSTICE

In the West the concept of distributive justice, at least in its modern form, is only two centuries old. In his *A Short History of Distributive Justice* (2004), Samuel Fleischacker points out that the concept consists of five subconcepts, which together form the heart of the modern notion of distributive justice. Most of these subconcepts have an individual history that dates further back, but it was only in the course of the 18<sup>th</sup> century that they became firmly connected. Fleischacker summarizes the five subconcepts as follows (Fleischacker 2004: 7):

1. Each individual, and not just societies or the human species as a whole, has a good that deserves respect, and individuals are due certain rights and protections in their pursuit of that good;
2. Some share of material goods is part of every individual’s due, part of the rights and protections everyone deserves;
3. The fact that every individual deserves this can be justified rationally in purely secular terms;
4. The distribution of this share of goods is practicable: attempting it is neither a fool’s project nor, like the attempt to enforce friendship, something that would undermine the very goal one seeks to achieve;
5. The state, not merely private individuals or organizations, ought be guaranteeing the distribution.

Two strands in Fleischacker’s story stand out. First, he makes it clear that the concept of distributive justice could only get off the ground after people’s conception of the poor had changed. Second, people had to be convinced that the state could indeed become an effective site of distributive justice, on terms acceptable to religious believers and non-believers alike. The work of Adam Smith played an

important role in the first strand, the work of Kant and followers of the radical Enlightenment, especially in France, were decisive in the second.

In the *Wealth of Nations* Adam Smith, for the first time, presented a remarkably dignified picture of the poor, a picture in which the poor make choices every bit as respectable as those of their superiors. Individual people may be good or bad, of course, but Smith urges his (mostly well off) readers to see the poor person as just like their friends, their relatives, or themselves. “[The] book’s greatest triumph,” according to Fleischacker, “is a shift in our moral imagination – it leads its readers to imagine the poor person differently – and it was the central teaching of Smith’s *Theory of the Moral Sentiments* that our imaginations are what shape our characters and moral attitudes” (Fleischacker 2004: 66-7). Smith made it clear that there were decent poor out there, who for no good reason lived below the threshold of human dignity. Like everyone else they had a right to have their basic needs fulfilled.

After Smith it was Kant who strongly emphasized the equal worth of human beings. He did so on the basis of secular arguments for the supreme value of personal autonomy. Many of his arguments were specifically directed against Christian views of charity. Alms giving “flatters the giver’s pride”, according to Kant, while “degrading” those to whom the alms are given. State-run provisions of the poor had *moral* advantages over private charity or philanthropy. It belongs to the essence of all virtue that it expresses and helps create a community of equal rational beings, a community that respects the equal, absolute worth of every individual within it. Kant therefore thought it better to focus on the *rights* of individuals rather than on their *needs*. In his lectures on ethics in the 1770s and 1780s, Kant restricts himself to suggesting that it would be better to see whether the poor cannot be helped in some way other than by private alms, but in his 1797 *Metaphysics of Morals*, published after the French Revolution had introduced radical ideas about what the state can do, Kant explicitly called for the state to provide that “other way” of taking care of the poor. It was part of the social contract establishing a state, he said, that the government “constrain the wealthy to provide the means of sustenance to those who are unable to provide for their most necessary natural needs”.

Here, then, we have a clear connection between equality, the focus on the basic needs of the poor, and a reference to the importance of the state as a substitute or complement to traditional forms of charity. In Fleischacker’s view, Kant gets extremely close to the modern notion of distributive justice, but he does not state it explicitly. He never quite says that the state is required by justice to provide for the poor, merely that such provision is part of the social contract. Although Smith and Kant did a great deal to establish the first subconcept mentioned above, and while Kant did a great deal to establish the second, third, and fifth subconcept, it

was only in the decade after Kant had published most of his major works, and after Smith had died, that the modern notion of distributive justice was born. That was left to the radicals of the French Revolution. They were the first to put a right of all people to a certain socioeconomic status on the political agenda – a right whose primary responsibility lay with the state, the prime representative of the collective will of the people.

In the 19<sup>th</sup> century a twofold ‘reaction’ took place to the ideas of the radical Enlightenment. The reactionaries waved aside Smith’s narrative and Kant’s arguments, and tried to re-establish pre-enlightenment ideas about the intrinsic inferiority of the poor. They also repudiated Christian beliefs in the importance of charity. Instead, they developed secular, naturalistic reasons for their proposals. The result was “a new callousness, an unprecedented harshness toward the poor” (Fleischacker 2004: 84). The second response, nowadays associated with “libertarianism”, argued against distributivist policies on the grounds of an absolutist conception of property rights. Both these strands came together in the works of the famous 19<sup>th</sup>-century philosopher Herbert Spencer. Fleischacker summarizes the views of the reaction, epitomized in Spencer’s works, as follows:

“[T]he state should avoid helping the poor because (1) the poor are composed of a group of people unfit for survival who cannot be helped much anyway; (2) the process of social evolution, in which the unfit die out, will if left alone vanquish poverty; (3) society is uncontrollable, so government attempts to solve the problem of poverty are likely to fail; (4) such government attempts will corrode the virtue of charity; (5) such attempts will lead to all sorts of legal problems since their goal is necessarily unclear; and (6) such attempts will override property rights, which it is the prime purpose of government to protect.” (Fleischacker 2004: 92)

After Spencer, a three-cornered struggle arose between conservative, liberal and socialist ideas, during which the slots between the two extremes of radicalism and reaction were slowly filled in. Although the concept of distributive justice entered the political discourse during this period, it remained at the margins of respectability for some time. The phrase seems not to have become widespread until after the Second World War, with the rise of the welfare state. It was the philosopher John Rawls, finally, who in his monumental work on justice in the 1970s synthesized the foregoing discussion on equality, property, rights, the role of government and the goods that a well-ordered society had to provide its members. He integrated all the important arguments into a fully developed liberal theory of distributive justice. And he left no doubt that the state was to play a crucial role in institutionalizing a fair pattern of distribution in society, in accordance with the principles of justice as fairness. For Rawls the “boundaries of these schemes [of distribution] are given by the notion of a self-contained national community” (Rawls 1972: 457).

### 15.3 BALANCING OUR LOYALTIES. ON THE EXTENSION OF JUSTICE INTO THE INTERNATIONAL REALM

Like Smith, Kant or the French radicals, Rawls based his theory on the principle of impartiality: all individuals, simply in virtue of their status as human, are entitled to equal moral consideration – no matter how much one might disagree about what such consideration entails. As can be gauged from the quote above, Rawls believed that the principles of a just distribution were to be worked out by different peoples, acting through their governments within the borders of a territorial state. To date, the principles of social justice have never been applied to the entire population of the world, but only to that small subset of humanity which shares the citizenship of a territorial state.

This leads to a contradiction in the heart of the theory of distributive justice: why restrict our loyalty to the principle of equal moral consideration to those living within the borders of a state? Why not distributive justice globally, ‘without’ or ‘beyond’ the borders of the state? What makes for the peculiar normativity of the state?

Let us return for a moment to the political trilemma sketched above. It is possible to rephrase the options as a concern about how to balance one’s loyalties. Acting through their government, citizens then have three choices: they can decide to globalize by further integrating into the world market, but then they run the risk of weakening the national base of their institutions, putting their particularist loyalties at risk. Or they can maintain that base, but then they will have difficulty reaping the advantages of the world market and put their loyalty to their fellow humans at risk. Finally, they can experiment and federalise, but then they run the risk of ending up in a no-man’s world where everything might be lost.

Hence the problem in the present world order is not only that “markets are striving to become global while the institutions needed to support them remain by and large national” (Rodrik 2007: 196), but that the same goes for our concepts of justice. These, too, tend to be global in perspective while the institutions needed to support them remain by and large national. Seen from the standpoint of distributive justice, we are still in the process of inventing the institutional structures that would enable us to find a reasonable balance between our universalist and our particularist loyalties – between loyalty to the principle of equal moral concern and loyalty to our nationals.

#### EGALITARIAN JUSTICE BEYOND THE STATE?

To acquire some sense of what it would mean to promote egalitarian ideals of justice in the international sphere, imagine a situation (borrowed from Pettit

2006: 39) where two countries are each domestically just in the manner Rawls set out in his *Theory of Justice* in the 1970s. Suppose that in one society people – and in particular the worst-off – are much wealthier than their counterpart in the other. And suppose that a certain redistribution would improve the position of the worst off in the poorer society. Ought such differences in wealth become an ongoing concern for global redistribution? No doubt: the more urgent the needs of those in the poorer society, and the higher the differences in wealth, the greater the obligation of the richer society to provide aid in some form or another to its poorer neighbour. But that is not the issue. The question is whether the inhabitants of both societies, in the name of the principle of equal moral consideration, owe each other a fair kind of equal opportunity irrespective of the countries they live in. Should global justice become social justice?

In the debate, three different forms of answer have been given to the question of why justice within the state should be different from justice beyond the state. The first answer comes from the ‘communitarians’. Communitarians try to dissolve the apparent conflict between justice at home and charity abroad by demonstrating that the idea of impartiality is only properly applied within the national context. Culture, nationality, or community are special in a way that matters for justice. The second answer comes from the cosmopolitans. They assert that the apparent contradiction is indeed a genuine incoherence. The only way to save the theory of distributive justice is to live up to the globalism inherent in its self-description, and to refuse to allow arbitrary facts of borders, nationality or citizenship to influence the administration of justice. Global justice, for the cosmopolitan, is egalitarian justice stretched outwards across national borders. The international community may not have the powers and tools yet to achieve this, but social justice is what we should be heading for, and charity is not enough. The third answer, articulated by Rawls in the 1990s, has non-cosmopolitan consequences but differs starkly from the communitarian approach. Rawls emphasizes the importance of institutions rather than community or culture.

What follows is a longer résumé of the three positions.<sup>4</sup> The aim is to tease out their normative implications for the present world order: how do the different positions help us to understand, define and balance our loyalties?

#### **NATIONALISM. THE STATE AS COMMUNITY-CENTRE**

Communitarians are prone to argue that adherents of global justice deny or neglect the importance of cultural membership and shared self-understanding. While cosmopolitans tend to associate cultural membership or nationality with race, communitarians believe that cultural membership or nationality generates the same reasons for loyalty as one’s family or friends, and they are just as important. If impartiality has any value at all – a point about which communitarians disagree –



it will be of value within the confines of a local culture or community. This is so for two disparate reasons, leading to two different schools of communitarian thought.

One school argues that community is *constitutive* of morality. Thus, from the beginning, morality is steeped in particularity. It always starts as a situated, local endeavour. In the words of Michael Walzer, “[m]orality is thick from the beginning, culturally integrated, fully resonant, and it reveals itself thinly only on special occasions, when moral language is turned to specific purposes” (Walzer 1994: 4; cf. Walzer 2007). The less morality can rely upon a common set of cultural understandings, the thinner it gets. Disembedded, it loses its grip on the world. The problem with global egalitarianism, writes David Miller, “is not that we lack (...) data that would enable us to compare societies (...) It is essentially the problem of saying what [equality] *means* in a culturally plural world” (Miller 2005: 64; cf. Miller 2008).

The philosopher Alisdair MacIntyre goes even further in the rejection of impartiality. Because morality is fundamentally dependent on a flourishing community of agents with shared moral values and norms, patriotism, the obligation to maintain and defend my nation, is a precondition of morality. Liberal morality, including its ideal of equality, rests on a dangerous illusion. In refusing to acknowledge the facts of social particularity, liberal impartiality may act against the continued existence or survival of the nation as an historical community, thereby undermining the very basis on which it rests. Morality only comes into its own when it is thick. Liberal morality, according to MacIntyre, is a contradiction in terms, and a dangerous one at that. Knocked loose of its base in particular communities, impartiality and universalism are bound to run amok.

But does this criticism imply that the moral claims of outsiders, those who are not members of our local community, necessarily have no pull on us? MacIntyre, and Walzer before him, may be right that the survival of the community as a self-determining, self-defining entity is an extremely important human good. They may even be right that patriotism is the only way to cherish and defend that good. But we may still ask to what extent the good of the nation, its continued existence, outweighs the good of its individual members, or the claims of those outside it. And when exactly does the ‘survival’ of the community become a crucial issue? Nations and cultures change, sometimes even beyond recognition. Although not all of these changes are morally acceptable, appeals to the survival of the community seem to be of little help in determining which changes are legitimate. Nations are not biological entities. They are “ongoing historical projects” (Blake 2005). It is true that these projects may be endangered by cultural decay, forced assimilation or a military invasion. But even in cases of military intervention, the nation may not have been destroyed. Germany and Japan were defeated in the Second World

War, but kept on surviving as a nation. Indeed, one could even set up a communitarian-style argument emphasizing that paying attention to the needs of outsiders may be functional for the survival of the nation and should become part of its historical project. The same goes for changing the existing practices of national membership, setting up an international regime for respecting basic human rights, or refraining from the exploitation of vulnerable communities outside the nation. Hence appeals to national survival may lead in different, even opposite, directions. You may make morality as thick as you want, and still end up with cosmopolitan proposals.

The second school of communitarian thought argues that one's fellow countrymen come first because of the relevance of community membership for the human good. Rather than communities being the very precondition for morality, it's the importance of communities for individual human flourishing that provides the ground for giving special status to group members. Where the first school of communitarian thought consists of 'meta-ethical particularists', who ultimately claim that national survival is at stake when it comes to the choice between patriotism and the cosmopolitan version of liberal morality, the second consists of 'ethical perfectionists'. Like members of the first school, they emphasize the importance of community. But they do so in a manner that is much more sympathetic to the pull of impartial reason and to the liberal value of individual autonomy. Members of the second school accept that impartial reasoning necessarily draws in the claims of outsiders and emphasize its importance as a cornerstone of fair decision-making. Even so, group members still retain a special status, this being due to the importance of communities for human flourishing. Hence members of this school of thought might best be dubbed *liberal nationalists*. For according to this view, it is only within the context of the nation that liberalism is able to promote individual human flourishing. In this manner, philosophers like Yael Tamir (1995), Will Kymlicka (1989) and Joseph Raz (1996) are prepared to go some way towards privileging the interests of insiders above outsiders and honouring particularist loyalties. Egalitarianism, in the liberal nationalist view, forms the crux of any liberal nation, but it makes little sense outside national borders.

The problem with arguments like these, however, is that they seem doubly unfair to those facing extreme forms of poverty and starvation. On top of their miserable state, the poor now face the additional burden of a morality which makes their claims all the more harder to hear. The perfectionist may be right that culture constitutes an essential human good, but that is a far cry from claiming that cultural structures trump all means of human welfare. However important the flourishing of social relationships may be for the achievement of individual autonomy, that does not make the stranger's ability to survive less urgent. Hence this version of communitarianism runs the danger of providing

“additional advantages to people who have already benefited from participation in rewarding groups and relationships (...) to the detriment of people who are needier, [either] because they are not themselves participants in rewarding groups or relationships or because they have significantly fewer resources of other kinds” (Scheffler 2001: 58).

Finally, there is a problem that both schools face. All communitarians seem to assume that the reach of a community is co-extensive with the reach of a state. For that reason they tend to neglect the importance of the state as a *political* entity. Most states presently contain more than one nation or culture within their territory. What if members of the dominant community seize the powers of the state, to the detriment of the members of other nations or cultures? The state is not a community-centre. Community-centres don't exercise legitimate authority or violence over a given territory. They do not administer justice to all citizens, they are not in the business of raising an army or a police force, they don't incarcerate people, and they usually do not have it in their power to regulate the marketplace. Communitarians of the perfectionist stamp may help us understand how the philosophy of liberalism may accommodate the claims of communities to recognition, legal protection, and self-determination, but they leave open the question as to the manner in which state institutions may exercise legitimate power over *all* the state's subjects, no matter what community or culture they belong to. Focussing on the bonds that keep people together as a group, reflecting on the way in which the phenomenon of culture may be crucial for human flourishing is one thing, coming up with an answer as to when the coercive powers of the state can be justified to *all* those who inhabit its territory is another thing.

#### **COSMOPOLITAN LIBERALISM. JUSTICE IN A SHRILL VOICE**

Cosmopolitans come in various stripes. The philosopher Peter Singer, the author of *One world* (2002), and also of a seminal article on famine, affluence and morality published in 1972 (Singer 2008), grounds his cosmopolitanism with an argument based on two premises which he thinks uncontroversially true:

1. Suffering and death from lack of food, shelter, and medical care are global bads;
2. If it is within our power to prevent something bad from happening, without thereby sacrificing anything of comparable moral importance, we ought morally to do it (cf. Singer: 2008).

The argument seems difficult to refute, and its consequences are far reaching. It makes the well-to-do, wherever they live, accessory to the deaths of the poor. Say you have a moderately high income. Then all you have to do to save a life is write out a cheque to an NGO providing food, shelter and care to the extremely poor. As long as the NGO of your choice actually saves lives – and many of them do – deaths can be prevented at little cost to the life you are now leading. Singer's point is that

globalization has brought all the poor within your reach – there are no distant needy anymore. Proximity may have been relevant in an earlier age, but nowadays funds easily find their way to the extremely poor, wherever they find themselves. At present levels of technology, information and wealth, prevention of poverty has become a *global* responsibility. Helping is no longer a matter of charity, but a duty. And it's easy to fulfil.

To flesh out his argument, Singer uses the image of someone passing a pond in which a small child is drowning, whom you could save only at the cost of wading in and ruining your suit. Preferring your suit to the child's life makes you morally complicit. The child's drowning is not your fault. You simply happen to be on the right spot, and his/her fate is now in your hands.

Singer claims that the pond example adequately illustrates our present situation with regard to the starving poor. But there are reasons to doubt this. There are at least three ways in which the example seems to fail to model the facts (cf. Miller 2007 and see Miller 2001). First of all, instead of one child drowning, picture millions, some of them nearer the edge of the pond than others. Next, add more bystanders. Now the problem changes: which children should be saved first and how to coordinate the assistance among those who are in a position to help? Singer creates the impression that additions like these are of minor importance, but together they go a long way in explaining why it's difficult for aid agencies in the world to get their act together. Coordination takes time and requires reassurance and discussion. The old solution was to relegate responsibility to each state for its poor, but that is precisely what the cosmopolitan disputes. Finding better solutions involves setting up complex international architectures for poverty alleviation, which, at present, are less effective in alleviating poverty than states.

In the second place, a child saved is usually taken care of by its parents. Not so with the poor. In Singer's example the drowning child is just an incident. All you have to do is get your suit wet and save the child. Poverty, on the other hand, is structural. For this reason Singer would have done better to picture the poor as being caught in a complex array of social traps. That's a better metaphor. The poor are not so much drowning as horribly stuck. And it will take years of sustained effort to get them out. Saving the child consists of a single act, eradicating poverty means fixing imperfect markets, empowering women, providing education, diminishing destructive forms of inequality, battling corrupt elites, building credible institutions, changing property relations, installing the rule of law, ending civil wars, creating liveable cities and planting seeds of hope in minds crushed by the memory of years of oppression. Getting people out of social traps requires complex skills, coordinated action, long-term planning, good timing and constant fine tuning.

The third reason Singer's example fails has to do with issues concerning responsibility. Singer wants you to save an innocent child. Alas, the poor are far from innocent. In many cases they are part actors and part victims. Take Kisangani, a small city in the heart of poverty-stricken Congo. There malnutrition exists side by side with brothels, beer joints, and cigarette stands. If one could get the men who spend their money in those places to invest in the simplest of businesses or in their children's education, they could begin to escape the poverty trap. Or take Indonesia. Among the very poorest families in rural Indonesia 6 per cent of family income goes to tobacco and alcohol. Sometimes the women eat bark while the men smoke. Or visit an AIDS clinic somewhere in South Africa, and see the efforts to save babies by using cheap medicines like Nevirapine to block mother-to-child transmission of HIV during pregnancy. After visiting the clinic, the women are given infant formula to take home, so that they don't infect the babies with HIV during breastfeeding. A hundred yards down the road, you see piles of abandoned formula, where the women have dumped it. The reason: any woman feeding her baby formula, rather than nursing directly, is presumed to have tested positive for HIV, and no woman wants that stigma. There are many examples like this.<sup>5</sup>

To sum up, the problem with Singer's case is that it barely gives you an inkling of the issues that will have to be dealt with in alleviating poverty. Writing out a check, throwing money at the problem, won't help. The real issue is devising policies and designing credible institutions that actually help the poor to break free of the traps they find themselves in.

Notwithstanding the misleading simplicity of his example, Singer has a point. It seems undeniable that politics has gone global. Today, there is barely a domestic political issue that hasn't embroiled politicians and civil servants in international disputes. Also, those who run governments, large corporations or the media, not to mention religious leaders or the leaders of the world's most dangerous criminal organizations, have achieved unprecedented levels of wealth and power. They control globalization more than anyone else (cf. Rothkopf 2008). Morality would be toothless in the face of so much accumulated power if it wasn't for the fact that those who wield it always do so in moral terms. With power comes responsibility and with great power comes great responsibility.

Wielding power, however, is one thing, coming up with solutions to persistent social problems is another. Singer seems absolutely right to claim that those who are powerful enough to save the poor from dying, and can do so without great costs to themselves, have a positive duty to help. But as became clear from the example discussed above, what's morally salient is not causally salient. The world's superclass have indeed much to account for as far as poverty (and much else) is concerned. The real problem, however, is that of designing and financing institutional structures that work. Installing effective regimes of human rights on

the ground, achieving success in the quest for sustainable and equitable economic growth, setting up an international architecture to combat climate change – these are complex public goods, involving many actors, different sets of responsibilities, and intricate divisions of (moral) labour, set out over long periods of time. We need these structures to manage globalization, but like all public goods they are difficult to produce. Worse, improving the provision of these global public goods is *itself* a global public good that has proven difficult to produce (cf. Kaul et al. 2003). At present, many policy tools, designed for a compartmentalized world of nation-states, economic sectors, and rivalry between markets and the state, are being stretched to their limit in response to problems which they were not intended to deal with.

Finally, Singer, like many cosmopolitans, may have got the issue wrong. This may sound cynical, but the problem is not saving the poor from dying. We have become quite good at that. Being poor in the past implied a much greater risk of disease and early death. Today, this is much less so. Take infant mortality. Italy's level of infant mortality on the eve of the Second World War was as high as Uganda's is today. In 1860 the rich countries of today had incomes of between \$ 1,300 and \$ 3,200 per person in today's prices. That's between Ghana and Romania on a modern scale. Yet Romania's infant mortality today is around 2 per cent and Ghana's around 7 per cent; while in the developed countries in 1860 infant mortality lay between 14 (for Sweden) and 26 per cent (for Austria). Reducing infant mortality for the poor has been one of humanity's remarkable achievements – due not to a magic bullet like the invention of antibiotics, but to steady sustained progress in hygiene, nutrition, and waste disposal as well as the diffusion of medical knowledge across the world as a whole (cf. Seabright 2004: 236).

The problem, then, isn't saving the poor from dying, it's achieving sustainable and equitable economic growth. Neoliberal growth policies haven't worked, or rather they have only worked well for the superclass. Where they have been applied to the letter, they, in most cases, had appalling effects for the middle and lower classes: crises raged and inequalities snowballed. The whole idea, dating back to the end of 1970s, that the world would be perfect if only we would practise *laissez-faire* and let individuals interact freely without any but the most basic intervention has proved itself an illusion. In a number of countries, notably Latin America, real wages peaked as long ago as the 1970s. "Trade," notes Ha Joon Chang, "is simply too important to be left to free trade economists" (Chang 2007a: 83).

#### 15.4 IT'S NOT 'WHAT CAN YOU DO?' BUT 'WHAT CAN YOUR INSTITUTIONS DO?'

After Peter Singer, Thomas Pogge is probably the philosopher who has done the most to home in on the argument that the rich are accessory to the deaths of the

poor. In terms of accusations leveled at the rich, his position is even more extreme than that of Singer. In Singer's example you are not responsible for the fact that the child is drowning. In Pogge's case you are. Although you didn't actually push the child in, it fell in under circumstances you are co-responsible for. You contributed to the child's plight to the extent that you could have changed the circumstances that caused it to fall into the pond. In the same manner you, at this moment, are actually harming the poor, letting them die where you could have avoided doing so. Singer approaches the problem of global justice from the standpoint of an individual agent asking herself what she can do to save the lives of the dying poor. Pogge is more interested in bringing about global institutional reform. For him it is the global order that primarily harms the poor.

Thus, we should undo the injustice and harm being done by that order. We should reform those features which impose unfair constraints and handicaps on the poor, and which violate their socio-economic rights. The question of course is: who are 'we'? 'We' are those bureaucrats and politicians who "either permit or impose" these features, and those citizens "who make an uncompensated contribution to the imposition of social institutions that foreseeably give rise to an avoidable human rights deficit" (Pogge 2005b: 720). In short, Pogge's central claim is that we have become "active participants in the largest, though not the gravest, crime against humanity ever committed. Hitler and Stalin were vastly more evil than our political leaders, but in terms of killing and harming people they never came anywhere near causing eighteen million deaths per year" (Pogge 2005a: 33). What the *Economist* above took to be the parameters of socio-economic development, Pogge takes to be unfair constraints and conditionalities imposed by the rich on the poor in order to become even richer – with disastrous results.

It is important to clarify this point. The problem with the global order is not capitalism per se. Pogge nowhere criticises capitalism or the market economy as such. He emphatically renounces the Marxist analysis of capitalism and does not see the institution of market economies as the root cause of poverty. There is nothing wrong in principle with instituting a market economy, provided the rich won't behave badly. The issue is not markets, but the arbitrary power of members of the contemporary superclass to open and close markets at will. The point is that "the present rules of the game favour the affluent countries by allowing them to continue protecting their markets through quotas, tariff markets, anti-dumping duties, export credits and subsidies to domestic products in ways that poor countries are not permitted, or cannot afford, to match" (Pogge 2005b: 725). So the rich countries are parasites rather than capitalists. They are unfair traders and impose market rules that are fundamentally asymmetric. It is these asymmetries that, according to Pogge, are among the root causes of poverty, "reinforcing the very inequality that enables the governments of the affluent countries to impose these asymmetries in the first place" (ibid.). Capitalism or the market economy is not the

problem. The imbalance of power is the problem, leading to the forceful imposition of unfair rules that systematically privilege the rich. “Our new global order,” according to Pogge, “is shaped in negotiations where our representatives ruthlessly exploit their vastly superior bargaining power, and expertise, as well as any weakness, ignorance, or corruptibility they may find in their counterpart negotiators” (Pogge 2002: 20).

### PASSIVE OR ACTIVE?

When Pogge expresses interest in global institutions, his list includes markets in capital and labour, property law, international trade and monetary arrangements, rules governing the use of force, and “constitutive features of the modern state, such as sovereign rights to tax, to bind its citizens through treaties, to control the use of national resources within its territory, and to represent their interests in international bargaining and rules setting” (Pogge in Barry and Pogge 2005: 1). It is on the level of these global institutions that decisions are taken which affect the daily lives of millions of people all over the planet. It is clear from the list that Pogge takes up a special attitude towards the state. Being the cosmopolitan that he is, he is specifically interested in the conditions under which the state may be justified to those *outside* its borders. For Pogge the state seems to be no more, and no less, than a set of dividable functions in a larger institutional division of labour. He is not very interested in the question of why states exist, nor is he much interested in how the state, as a coercive institutional structure, could be justified to those living *within* its borders. He takes it for granted that there might be large differences between states in terms of their internal political structures, and he also accepts that some states or regions have better succeeded in achieving equitably distributed forms of wealth than others. But he shows little curiosity in understanding why this is so. States, in his view, seem to be passive rather than active. What they (can) do is contingent on the structure of the world order as a whole. Similarly, failed states are also a function of the global order as a whole. So instead of looking into the individual achievements of different states, Pogge keeps his eyes firmly fixed upon the central levers of global power: shift these, and everything else will shift, too. Are there failed states? Then let those holding the levers of global power put an end to the resource and borrowing privileges of despotic rulers, let them stop the international arms trade, open the bank accounts of corrupt elites, and keep the local thugs from exploiting natural resources. Do this and failed states will vanish from the face of the earth. It is no exaggeration to say that everything in Pogge’s approach is contingent upon the world order as a whole, indeed even “oppression and corruption (...) are themselves very substantially produced and sustained by central features of the present global order” (Pogge 2005b: 735).



Again what is morally reprehensible – the ruthless exploitation by the rich of their rule-making power – seems to coincide with what is causally salient in the explanation of why the poor in the world remain poor. And again there are reasons to doubt this. There is no denying that the rich are rule-makers rather than rule-takers, but one might still question whether this morally reprehensible fact is also the causally salient factor in explaining global poverty. It is remarkable that Pogge, when discussing the causes of poverty, barely pays any attention to the individual successes or failures of states in eliminating poverty. He never refers, for example, to the disastrous socialist policies of states in the communist world. Nor does he refer to the fact that a significant number of developing countries within the capitalist world – Taiwan and Korea among them – were able to industrialize and achieve high rates of (in Taiwan's case: equitable) growth. In Pogge's approach the industrial policies of the developing countries are of little interest by themselves. He attributes nearly all the causal weight to the global order: states – especially developing states – are always placed at the end of a causal chain that barely leaves them any space to become actors in their own right.

It is for this reason that cosmopolitans like Pogge and Singer run the risk of seeing no casualties, only victims of globalization. In this, they stand opposed to the editors of the *Economist*, who tend to see no victims, only casualties. But perhaps the truth is that those who are hurt by economic change in today's world are predominantly neither casualties nor victims. Pogge is right in pointing out the tremendous causal weight of institutional structures. He is also right in emphasizing the moral responsibilities of those holding strategic positions in the global order. Furthermore, he is right to associate global justice with the vital role that a concern for basic human rights should play in the foreign policy of the major countries. But he too easily assumes that what is morally salient is also causally salient.

Although not losing sight of those who are, ultimately, responsible for the global order as a whole, it is worthwhile to pay closer attention to local successes and failures, for these provide important clues as to how globalization, in present circumstances, could be made to work for the masses. Top-down approaches like those of Pogge should be complemented by bottom-up approaches, allowing us to see states as active rather than passive agents.<sup>6</sup>

### LOCAL SUCCESSES

If we zoom in on the local successes achieved by states in the developing world, the dismal picture with which we began becomes more nuanced. It's not that the facts are different. It's only that there is a bit more reason for hope. No doubt, inequalities are still rising, and they have a dismal effect on the lives of the poor, but thanks to India and China, fewer people are living in severe poverty now than

30 years ago. According to World Bank calculations over the last 20 years the number of people in extreme poverty fell in absolute terms by 400 million people.

Since 2000 things are getting better on the economic front. This is so even for Africa. Apart from the failed states in this region, between 2000 and 2007 most countries in Africa achieved growth rates of around 5–6 per cent (Easterly 2008a: 10). Although it's very likely that the majority of these countries will miss most of the targets set in 2015 by the Millennium Development Project, expectations about reaching these goals are simply too high if one believes they can be reached by adding another \$ 50 or \$ 100 billion more of aid. Many of these countries still have to overcome deep structural problems that aid projects have a poor record of removing rapidly. So although it's unlikely the poverty rate in Africa will be reduced by half in 2015 – this is Goal 1 of the Millennium Development Project – it is nonetheless true that poverty is diminishing, even though growth is still highly inequitable and sometimes only serves to prop up the rich. The same goes for the attainment of the other Millennium Development Goals. Attaching too much value to the targets runs the real risk of making recent success in Africa look like failure. To take just one example: Burkina Faso has net primary school enrolment of around 40 to 45 per cent. According to Goal 2 it should attain universal enrolment by 2015. Given its current performance rate, the country will reach only 60 per cent enrolment. But is this bad? It took the US over a century to make the transition from Burkina Faso's current enrolment to universal primary schooling. At its present rate Burkina Faso is expanding elementary education at more than twice the rate of Western historical experience. Reaching 60 per cent in 2015 would, by that standard, be a resounding success (Clemens and Moss 2005; cf. Reinert 2007: chapter 7). There are many more examples like this (Easterly 2008a). In terms of comparisons with the past, the rest, at the moment, is doing better than the West.

The problem with the Millennium Development Goals is that they pay insufficient attention to the issue of spurring local growth. As development economist Chris Blattman notes, “the difference between an Africa that saves its own babies and one where it continues to fall to others is simple: a tax paying industrial sector” (Blattman 2008). The great achievement of the Millennium Development Goals was that they shifted attention away from narrow conceptions of growth conceived in terms of *per capita* income to forms of development that encompass issues of health, education, gender equality, climate change and sustainable development. But as they stand, the Millennium Development Goals encapsulate an approach to growth that reminds one of the one-size-fits-all approach of the Washington Consensus: the goals are based on *presumptions* about development and are of little use in *diagnosing* development as it is (or is not) taking place on the ground (cf. Rodrik 2008). The goals indicate the desired outcomes of development but have little to say about local constraints and how these might be overcome.

It's only in comparison to the developed world *in its present state* that the situation in the developing countries becomes so alarming, and the glass looks half empty again. It's the vast and rapidly increasing differences in international and intranational wealth that has opened up the space for the cosmopolitan accusation that the rich are accessory to the deaths of the poor. Although the accusation makes sense in the light of these differences, we should beware of the cosmopolitan stereotype that the poor in the developing countries are just helpless victims waiting to be rescued by doubling or tripling the aid from the West. Poverty will not be reduced through massive aid transfers nor by global lever pulling at the top end of the causal chain. What is needed are sustained and well-coordinated efforts at local institution-building, a strong determination to assist those that got stuck, and the enhancement of conditions of individual and collective learning among all those concerned. Maybe we don't need better theories so much as better taxonomies (cf. Reinert 2007), better tools for doing growth diagnostics (cf. Hausmann, Klinger and Wagner 2008), and a greater awareness that learning is a collective but indeterminate process that is best advanced by arrangements that recognize this indeterminacy (Reddy and Sabel 2006). Instituting learning and feedback processes on the ground constitutes a crucial component of development. Economist Amartya Sen was one of the first economists to point this out in his book, *Development as Freedom* (Sen 1999). The point was later taken over by Dani Rodrik when he emphasized the importance of the process of "self-discovery" that a country needed to undertake in order to formulate its industrial policies (Rodrik 2007: chapter 4), and it was much emphasized as a corrective to "big push" theories of economic development by William Easterly (cf. Easterly 2007; 2008b).

## 15.5 FROM COSMOPOLITANISM BACK TO THE STATE: RAWLS AND THE LAW OF PEOPLES

The third approach to the extension of justice into the international realm was articulated in the 1990s by John Rawls. He developed his views in a book called *The Law of Peoples* (Rawls 1999).<sup>7</sup> Like the communitarians, Rawls maintained that egalitarian principles of social justice are only applicable in the domestic context. Societies and their members are required to do what they can to protect the rights of those who suffer at the hands of ill-ordered, outlaw regimes and to provide relief for those in ill-ordered, impoverished societies. They have reason to develop principles constraining state action, and reason to ensure that these principles are acceptable both to liberal and illiberal but decent states. But there is no place in Rawls's concept of justice for global egalitarian concerns. Social justice remains firmly attached to the domestic context.

The important thing to note in this approach is that Rawls never invokes special duties towards compatriots. According to Rawls, it is institutions, rather than

nationality or culture, that give social justice content and application. In this way the apparent conflict between egalitarianism at home and respect for basic rights abroad can be dissolved in an impartial manner, without referring to one's particular loyalties to one's particular countrymen (however important these loyalties still may be). What is distinctive of the Rawlsian approach to justice is that the content, scope, and justification of the concept of justice depend on the structure and form of the practices that it is intended to govern.<sup>8</sup>

## TWO PUBLICS, ONE ANSWER

When asked what justifies the existence of states, we stated above that the answer could take us in two directions: (1) 'What is it to justify the state to those living within its territory?' and (2) 'What is it to justify it to those living outside its territory?' When Rawls published his *Theory of Justice* in 1972, he seemed to believe he could come up with an answer which could satisfy both publics at once. As long as the state system as a whole allows individual states to achieve a modicum of social justice, the existence of the state can be justified to both insiders and outsiders. This kind of justification works well under the following assumptions:

1. Everybody lives on the territory of a state, and nobody is excluded from citizenship: there are no second-class citizens.
2. There are no significant, structural asymmetries of power and no insurmountable economic gaps between individual states.
3. There are no streams of migration that states cannot reasonably absorb.
4. The world is made up of more or less separate state-economies, interacting at arm's length with one another
5. The international trading regime leaves states sufficient leeway to erect regulatory and redistributive institutions on a national basis
6. These regulatory and redistributive institutions, forming what Rawls calls the "basic structure" of society, are to a significant degree under the control of citizens acting together as a people through their government: there are no rogue states, no oppressive regimes, and no failed states.
7. Governments possess the powers and means to effectively regulate the "basic structure" through tax-setting, redistributing incomes, providing safety nets, and/or the allocation and redistribution of assets, revenues, and other scarce resources.
8. Trade between nations is based on principles that are fair to all trading partners.

In 1972 it still seemed plausible to believe developments were going in the right direction. This became less credible during the 1980s, when international, intranational and global inequalities rose steeply. Since then civil wars, collapsing states, and sprawling cities surrounded by vast slums have set millions of people on the move, making fortresses out of the richer states. During this same period, globalization created social and economic interdependencies that eroded the distinction

between the national and the international realm, thereby affecting the distributional autonomy of states and making them more dependent on international cooperation in order to achieve a modicum of social justice. In the light of the political trilemma sketched above, most states are now either federalizing or regionalizing in order to maintain a modicum of control over financial markets. While technology and global trade have been highly beneficial for skilled workers – allowing them to be more productive and to play on a bigger stage – they have made millions of other workers replaceable. There is a growing fear that the middle classes are losing ground, and that choices within the trilemma might be moving in authoritarian directions.

### LOYALTY TO DECENCY

It is not difficult to read *The Law of Peoples* as a belated attempt to restore a world in which the idealizations made in assumptions 1-8 would regain some of their plausibility – a world in which nationally based social policies, such as full employment and equal opportunity, would not be undermined by greater openness to the world market, and in which international cooperation would reinforce the domestic social compact within states. Rawls set his hope on a liberal internationalist order, a “society of states” interacting on the basis of a shared set of rules that would eliminate “destructive forms of inequality” (cf. Birdsall 2005; Cornia and Court 2001) between states and promote respect for the governments of peoples. Outlaw states would be deprived of their membership of the society of states, burdened societies would be helped until they could become well-ordered. In setting out his argument, Rawls articulated a minimum package of human rights determining what he called a threshold of “decency”. Included in the package are the following rights: the right to life (to the means of subsistence and security), to liberty (to freedom from slavery, serfdom, and forced occupation and to a sufficient measure of liberty of conscience to ensure freedom of religion and thought), and to formal equality (Rawls 1999: 65). Once societies passed the threshold of decency, they were to be accepted as legitimate members of the international community.

It is striking that Rawls excluded civil and political rights from the package. This is all the more surprising since he left no doubt that his vision of a well-ordered society of peoples was, in essence, a vision whereby each people should be just *by its own lights*. He had also made it abundantly clear that there is no greater threat to liberty and equality than when states govern *ultra vires* and are no longer restrained by a public conception of justice. That citizens were given a meaningful role in political discussion constituted for Rawls the bare minimum of a state’s political legitimacy. So why leave civil and political rights out of the package? The answer seems to be that Rawls wanted to leave it open as to *how* the people are given a role in the political discussion. The institutional form through which the

condition of legitimacy is achieved may not be that of a constitutional democracy. To achieve legitimacy, states must pass the level of “decency”, but they do not need to be “socially just”. There is a difference between the minimum package of basic human and the full set of rights of citizens in a liberal constitutional democracy. Thus, Rawls accepted the possibility that legitimacy may be achieved by forms of political representation that are not democratic in the full sense. As long as there are strong political institutions and mutually binding forms of consultation, as long as there is no systematic exclusion of segments of the population, and as long as individuals are protected against the state’s arbitrary action, Rawls assumed that governments could act as the legitimate representatives of their people and constitute “decent” societies. “Decency”, in other words, is a function that can be performed by various institutional forms.

The focus on decency as the minimal condition of legitimacy explains why Rawls is not an adherent of egalitarian justice in the international realm. Once a society becomes decent and there is good reason to believe that its government acts as the representative of its people and is constrained by a public conception of justice, it is perfectly possible for the people in question to remain poor in comparison to other societies. Well-ordered societies have a duty to assist burdened societies or come to the rescue of what are now called “failed states” – where most of the desperately poor live – but that’s a far cry from regulating the world order according to the principles of social justice. Rawls is adamant that adjusting levels of welfare worldwide is not the object of the duty of assistance. The first aim of international justice “is to realize and preserve just (or decent) institutions, and not simply to increase, much less to maximize indefinitely, the average level of wealth, or the wealth of any society or any particular class in society” (Rawls 1999: 107).

Hence the duty of assistance has a clear cut-off point. Once a burdened society becomes “decent”, it is up to the people to decide how much more wealth is needed. Institutions representing the international order should guarantee decency and international stability, but it is not their task to take notice of the differences in prosperity – unless these differences have been achieved by exploitative forms of trade and have become detrimental to the stability of the international order.

To recapitulate, Rawls’s slogan is not “justice at home, charity abroad”, but “justice at home, decency abroad”. Decency sets a standard of human rights that is higher than charity but lower than the egalitarian principle of social justice. It is loyalty to decency that sets the terms under which a society may legitimately wage war against an outlaw state and is obliged to help burdened societies to become well ordered and “just by their own lights”. Charity is a matter of aid, decency implies a commitment to institutional assistance and sets a clear cut-off point, after which societies have to decide for themselves how much wealth to achieve.

In this manner Rawls ascribes to international law and practice the goal of promoting a limited set of rights, different from the rights citizens possess in a liberal constitutional democracy.

This is not to deny that the international order might still require a fundamental reorientation in order to be just. If the state system in its present form leads to systematic deprivation and denies large groups of individuals access to basic resources; if, in other words, the global order systematically harms the poor, then the creation of more effective international practices of aid and provision is a legitimate requirement of justice on the global system of resource control. That will indeed require a lot of global lever pulling at the top, but this can never substitute for the efforts of peoples acting through their governments to become just and achieve a modicum of growth. In the moral division of labour, social justice still requires the institutional context of the state.

#### **SOCIAL JUSTICE AND THE NORMATIVE PECULIARITY OF THE STATE**

Rawls has always emphasized that the aim of distributive justice in the domestic sphere was not to allocate wealth, but to design the system of basic legal institutions and social norms that make production, exchange, distribution, and consumption possible among free and equal persons. Despite increasing global interconnectedness, only states, in Rawls's view, possessed the features to do this. Why is this so? Let's start with a fundamental difference between government and governance. Government, according to James Rosenau,

"suggests activities that are backed by formal authority, by police powers, to ensure the implementation of duly constituted policies, whereas governance refers to activities backed by shared goals that may or may not derive from legal and formally prescribed responsibilities and that do not necessarily rely on police powers to overcome defiance and attain compliance." (Rosenau quoted in Risse 2006: 674)

It is the coerciveness of state institutions, the shared subjection to a coercive state apparatus, that marks the normative peculiarity of states. States are under a special obligation of justice because their monopoly of violence not only constitutes the largest threat to the individual autonomy of those living on its territory but is also a basic requisite for their individual autonomy. Settled rules of coercive adjudication are necessary for the settled expectations among citizens without which autonomy is denied.

In a seminal article on the problem of global justice, the philosopher Thomas Nagel noted that all concepts of justice depend on the coordinated conduct of large numbers of people, which cannot be achieved without law backed by a monopoly

of force (Nagel 2005). Justice cannot be realized by the independent motivation of self-interested individuals unless each of them has the assurance that others will conform to the rules if he does. That assurance requires the external incentive provided by the sovereign, who sees to it that individual and collective self-interest coincide. At least among sizable populations, it cannot be provided by voluntary conventions supported by the mutual recognition of a common interest. In the absence of the enabling conditions of sovereign power, individuals are thrown back on their own resources and led by the legitimate motive of self-preservation to a defensive, distrustful posture of war. Hobbes had already concluded that individuals in such a situation would be prepared to trade obedience for peace. Nagel pointed out that the situation was structurally similar to the instalment of broader conceptions of justice:

“[w]ithout the enabling condition of sovereignty to confer stability on just institutions, individuals however morally motivated can only fall back on a pure aspiration for justice that has no practical expression, apart from the willingness to support just institutions should they become possible.” (Nagel 2005: 116)

Nagel made it clear that Rawls himself had come to realize that his version of liberalism duly rested upon a *political* version of liberalism, which assumed the priority of politics to morality. Sovereign states are not merely instruments for realizing the preinstitutional value of justice among human beings. Instead, their existence is precisely what gives the value of justice its application, by putting the fellow citizens of a sovereign state into a relation that they did not have with the rest of humanity; an institutional relation which must then be evaluated by the special standards of fairness and equality that fill out the content of justice. Every state, Nagel remarked, “has the boundaries and population it has for all sorts of accidental and historical reasons; but given that it exercises sovereign power over its citizens and in their name, those citizens have a duty of justice toward one another through the legal, social, and economic institutions that sovereign power make possible. This duty is *sui generis*, and it is not owed to everyone in the world” (ibid., 121).

It is for this reason that the state should be accorded a special status in any theory of justice. Above we asked whether it would be preferable to live in a borderless world. On the political conception of justice, the answer is simple: no borders, no justice, or rather: no *social* justice.

#### CONCLUSION: TAKING THE POLITICAL VIEW

If one takes this political view, one will not find the absence of social justice in the world a cause for distress. There is a lot else to be distressed about: world misery,



for example, the internal injustice of so many of the world's sovereign states, global warming, catching up with today's new realities of interdependence and globalization, the spread of unliveable cities and slums across the world, the large numbers of migrants seeking a job in the richer states, the rise of a superclass with as yet uncontrolled forms of power, the underrepresentation of developing countries at the negotiating tables where crucial decisions are made, the lack of coordination between individual states concerning the production and financing of global public goods, the chronic inability of the world's major countries to promote just institutions for societies that do not have them. Social justice does not have to be the whole story.

A number of theorists (Julius 2006; Blake and Risse 2006; Cohen and Sabel 2006; Sangiovanni 2007) have since pointed out that of course there also other forms of justice to be maintained in the international order. They accept Nagel's insight that the enforcement mechanisms of the state have a special status and require a special form of justice, because there is no other set of rules that is so pervasive and has such a direct effect on the daily lives of citizens. But, these theorists hold, there are other enforcement mechanisms than those of the state. They may not be as all-pervasive as those of the state but influential enough to create their own demands of fairness. Think, for example, of the impact of the rules of the WTO or the regulation of intellectual property through the TRIPS agreements. These forms of governance exert their own forms of pressure and generate their own demands of fairness. Different associations can give rise to different associative duties according to the impact of the association in question and the importance of the goods it provides for (Cohen and Sabel 2006). A world order not regulated according to the principles of *social* justice does not have to be an order devoid of all forms of justice.

It is ironic. Despite the talk about globalization and the necessity of opening up to world markets, there has been a remarkable turn towards the state in recent years. Development economists Dani Rodrik, Ha Joon Chang and Erik Reinert have demonstrated that states still play an important role in stimulating economic growth and redistributing wealth in an equitable way, despite the loss of certain of their policy tools. The post-Cold War era began under the intellectual dominance of economists who pushed strongly for liberalization and a much smaller state. A decade later, many economists became aware that some of the most important variables affecting development weren't economic at all, but were concerned with institutions and politics. There was, notes Francis Fukuyama, "an entire missing dimension of stateness that needed to be explored" (Fukuyama 2005: 29). It is interesting to note that discussions about justice have made a similar institutional turn.

Given these developments and the increasing interdependency between states, one may wonder whether the burden of achieving social justice should still rest exclusively on the state. Wouldn't it be better to split up social justice into various

'functions' and delegate them to other institutions? Think, for example, of the following functions: 'improving equity', 'taking care of redistribution', 'protecting the poor', or 'providing health care and social insurance'. In the 50 or so failed or fragile states in the world, some of these functions have indeed been taken over by aid agencies or peace-keeping forces. Alas, to no avail. The most these agencies have succeeded in creating are forms of 'welfare colonialism', in which the local population has become increasingly dependent on outside organizations and in which all local talent is absorbed into these agencies (cf. Reinert 2007: 263-266). As long as there is no local legitimate power, there is little hope that aid coming from outside will eventually be replaced by indigenous forms of development. The best way to safety and prosperity for local populations is still that of building strong state institutions. It is only after having achieved this that peoples acting through their governments can delegate functions of justice to higher echelons in a successful manner. In this sense there is still no social justice and no possibility of economic growth without the state. The pressures toward globalization are real, but only strong states will eventually be able to federalize in response to these pressures and develop the international and supranational institutions appropriate for balancing our larger loyalties. Globalization cannot work without states. No matter how arbitrary their borders, they form the locus of social justice and provide the leeway to the other forms of justice that might be possible in the international and transnational world we live in.

## NOTES

- 1 In the literature distributive justice is also referred to as 'egalitarian' or 'social' justice. In conformity to the literature, I will use these terms interchangeably.
- 2 See (Evans 2005), and see (Ruggie 2004). For the refusal of South East Asia to go along with the neoliberal rules see (Chang 2007b). It is important to note that these leaders fully concurred with the members of the Washington consensus that participatory politics should be left out and preferably replaced by forms of good governance. Asian leaders opted for strong states, but not for welfare states.
- 3 I have been greatly aided in formulating these questions by (Risse 2005a, 2005b, and 2006).
- 4 In setting out these positions I lean heavily on (Blake 2005) and on (Scheffler 2001).
- 5 The examples are taken from Kristof (2006 and 2007). More examples can be found in Easterly (2007). As for the notion of 'traps' see Collier (2007) and *The Chronic Poverty Report 2008-09*.
- 6 For an example of such a bottom-up approach see the *Spence report on Growth* (2008), commissioned by the World Bank and available on the internet-site of the World Bank. The Report consists of a detailed study of how thirteen countries managed to record growth rates averaging 7 % or more for 25 years or longer.
- 7 By the 'Law of Peoples' Rawls means "a particular conception of right and justice that applies to the principles and norms of international law and practice" (1999: 3). By a 'society of peoples' he means "all those peoples who follow the ideals and principles of the Law of Peoples in their mutual relations. These peoples have their own internal governments, which may be constitutional liberal democratic or non-liberal but decent governments" (idem).
- 8 For a clear exposition of this aspect of Rawls's theory, see James (2005). For a broader view of the same approach, see Sangiovanni (2007).

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